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WORLD NEWS

Socialists raise the stakes in Brussels dispute

The European Parliament's largest political group, the socialists, raised the stakes ahead of a censure motion against the European Commission, warning that it would vote to sack all 20 commissioners if other groups tried to target individuals. **Europe, Page 3**

Mandela seeks Lockerbie solution
Nelson Mandela, the South African president, made a last ditch attempt to resolve the impasse over the extradition of Libyan suspects in the 1988 Lockerbie Pan-Am bombing following talks with UK premier Tony Blair. **Page 18; ANC ties, Page 6**

Plan would cut German payments
Germany's net payments to the EU would be cut while the UK's would rise by €2.4bn ($2.79bn) under proposals for reforming EU finances put forward by an independent council of economic advisers working for the Bonn government. **Europe, Page 3**

IRA threatens new violence
The Irish Republican Army referred to a possible resumption of violence if UK ministers "again succumb to the unionist veto" – the first time the IRA raised the prospect of such action since the Northern Ireland peace agreement last April. **Britain, Page 8**

Canberra offers tax breaks
The Australian government announced unprecedented tax breaks for foreign and domestic companies involved in private infrastructure projects worth nearly A$1bn (US$613m). **Asia-Pacific, Page 7**

Malaysian police chief quits
Malaysia's police chief Abdul Rahim Noor has resigned, taking responsibility for injuries inflicted on sacked finance minister Anwar Ibrahim in police custody three months ago. **Asia-Pacific, Page 7**

Inflation hits Mexican central bank
A year after Guillermo Ortiz took office as governor of Banco de México, a sharp rise in inflation has sapped the credibility of the central bank and put it under pressure to meet pricing targets. **The Americas, Page 4**

Italian PM to meet Pope
Massimo D'Alema, Italy's prime minister, will today meet Pope John Paul II at the Vatican in an historic encounter that seeks to end half a century of feuding between Italian communists and the church. **Europe, Page 3**

FCC to rule on three mergers
The head of the Federal Communications Commission, the chief US telecommunications regulator, said the agency was planning to rule on three big pending mergers within six months. **The Americas, Page 4**

17,000 Poles face the sack
The Polish government signed a deal with unions and employers which cleared the way for 17,000 redundancies in the steel industry in Silesia over five years. **Europe, Page 3**

Rebels kill miners in Angola
Foreign mining companies in Angola were re-examining their positions after four miners were killed by armed rebels. **International, Page 6**

BUSINESS NEWS

Volvo shares surge 5% on move to sell off cars division

Volvo shares jumped 5 per cent after the Swedish group revealed it had hired a US investment bank, said to be J.P.Morgan, to explore a sale or merger of its cars division. **Page 19; Fast and loose in Detroit, Page 17; Size is the issue, Page 20**

German government bonds seem to be beating French bonds to become euro-zone benchmarks. Yesterday saw 444,000 contracts in the German 10-year bond against 28,000 for the French. **Page 19; Bonds, Page 26**

Ford Motor of the US aims to save a $1bn in further cost-cutting this year. The car and truck group saved $1.9bn in the first nine months of 1998 and $3bn the previous year. **Page 19**

Twelve leading banks have formed a taskforce to tighten risk management practices in the wake of last summer's near-collapse of the Long Term Capital Management hedge fund. **US and Canada, Page 4; Observer, Page 17**

Renault, part-privatised French vehicles group, is set to overtake Germany's Volkswagen with Europe's best-selling car for the first time in 15 years. **International companies, Page 20**

Toys R Us and J.C. Penney, two of the biggest US retailers, reported steep falls in December sales, though others, such as Wal-Mart Stores, did well. **American companies, Page 21**

MCI WorldCom is understood to have approached AirTouch informally to signal interest in a possible bid. **Page 19**

Morgan Stanley Dean Witter reported record fourth quarter earnings of $879m and could open retail brokerage outlets in Japan. **Page 19; Lex, Page 18**

Singapore Telecommunications is taking 20 per cent of Thailand's Advanced Information Service, a cellphone offshoot of Shinawatra Computer and Communications. **Asian companies, Page 22**

Cathay Pacific is losing five executives, including one involved in failed talks about buying a stake in Philippine Airlines. They are leaving to work in Manila for the troubled carrier. **Asian companies, Page 22**

Associated Cement Companies, India's biggest producer, was forced to drop plans for a preferential issue of shares and warrants to the Tata group. **Asian companies, Page 22**

Bethlehem Steel of the US is to stop the stainless sheet and strip operations of Washington Steel, which it acquired last year, with the loss of some 540 jobs. **International companies, Page 20**

Hong Kong unveiled tough proposals to regulate companies lending money for share purchases. They would need a minimum paid-up capital of HK$10m (US$1.3m). **Asia, Page 7**

Lex on Kirch
Unjustifiably optimistic evaluation?
Page 18

Duisenberg hints at euro conflict

ECB president warns against explicit exchange rate policy

By Wolfgang Münchau in Frankfurt and Edward Luce in London

Wim Duisenberg, president of the European Central Bank, yesterday declared the introduction of the euro a success. He insisted that all the main technical systems had coped well during last week's transition to the single currency.

But he foreshadowed a looming conflict with European governments when he warned politicians against adopting an explicit exchange rate policy for the euro.

Speaking at a news conference after the first meeting of the ECB's governing council since the currency was launched on January 1, Mr Duisenberg said exchange rate target zones were unworkable and potentially inconsistent with the ECB's primary objective of stable prices.

His comments came as evidence emerged that Euribor, the reference rate set by the European Banking Federation for inter-bank lending, was displacing the long-established Euro Libor rate, set by the British Bankers Association.

Brian Williamson, chairman of the London International Financial Futures and Options Exchange, said that up to 80 per cent of money market deals in the euro this week had been based on Euribor rather than Euro Libor. Analysts had expected a drawn-out battle between the two benchmarks. The move is a blow to London's position as the leading financial centre in Europe. Libor was the only serious reference rate for trading in D-Marks and Lira before monetary union. It remains the leading benchmark for dollars and Japanese yen.

Mr Duisenberg's comments came on the first day of a European tour by Keizo Obuchi, the Japanese prime minister, who has been lobbying for a policy of managed exchange rates for the US dollar, the euro and the yen. Many European governments support explicit target zones for the euro, fearing that excessive appreciation of the euro against the dollar could stifle economic growth and increase unemployment.

Mr Duisenberg said: "We do not have an explicit exchange rate policy. We have a policy to ensure price stability. We have no exchange rate targets vis-a-vis another currency."

Mr Duisenberg insisted the ECB would not follow a policy of benign neglect towards the exchange rate. But it was only one of several indicators influencing monetary policy. "I was happy when the euro took off on Monday, and I was equally happy when the euro came down again on Tuesday, and I am happy again today when the euro rebounded. So, I have had three happy days," Mr Duisenberg said.

Mr Duisenberg acknowledged that Target, the new cross-border real-time payment system for the euro-zone, which started operation this week, had had some teething troubles. But he insisted that the problems were small and caused by transaction overload rather than technical faults.

The ECB reported yesterday that the Target system had handled €310bn in payments on Tuesday, resulting in a total payment system transaction volume of about €1,000bn, including national payment systems.

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CHIEF JUSTICE SWEARS IN SENATORS ● DISPUTE OVER WITNESSES RUMBLES ON ● CLINTON STAYS WORKING AT WHITE HOUSE

President's trial gets under way

By Gerard Baker and Deborah McGregor in Washington

The historic impeachment trial of President Bill Clinton got under way yesterday in a brief but awesome ceremony in the US Senate, as William Rehnquist, chief justice of the Supreme Court, took the oath to preside over the hearing.

Mr Rehnquist in turn asked senators to swear that they would administer "impartial justice" as jurors evaluating the evidence presented against the president.

Then the senators dispersed into informal discussion groups to resolve their continuing disagreements over how to conduct the trial.

It will be the first impeachment trial of a president in 131 years.

Earlier in the day, Henry Hyde, the chairman of the House of Representatives' Judiciary Committee, read out the charges against Mr Clinton, including perjury and obstruction of justice in attempting to cover up his affair with Monica Lewinsky, a former White House intern. Senators sat solemnly as Mr Hyde read the articles, passed on largely party-line votes by the House in December. Senators and spectators were instructed by the sergeant-at-arms to remain silent on "pain of imprisonment".

"I was saddened by the fact that we have to do this," Mr Hyde told reporters afterwards.

At the White House, President Clinton did his best to demonstrate he was fully focused on his Administration with yet another policy initiative, this time on education.

The public had been waiting in line for hours at the other end of Pennsylvania Avenue but yesterday's proceedings lasted just under an hour in total.

In the morning the senators heard the charges. Three hours later they returned to be sworn in as jurors by Mr Rehnquist.

Senate Democrats declined a Republican offer to meet in the Old Senate Chamber after the swearing in to try to thrash out a compromise that could be outlined in an official summons to be sent to the White House.

The main point of dispute remains whether witnesses should be called to testify.

Senator Strom Thurmond swears in Supreme Court chief justice William Rehnquist to preside over the impeachment

The thought of Ms Lewinsky telling her story in the senate chamber is something that many Republicans and the White House would prefer to avoid.

But House Republicans, anxious not to see any short cuts that appear to repudiate their impeachment of Mr Clinton last month, are pressing to have up to 15 witnesses testify, including Ms Lewinsky, Mr Clinton's friend, Vernon Jordan, and the President's secretary, Betty Currie.

Tom Harkin, a Democratic senator summed up his party's feelings about witnesses by suggesting they could turn the trial into a "verbal Hustler magazine".

The outcome of the witness dispute will determine how long it takes for the events unfold. The Republican leadership in the Senate is trying to strike a deal with Democrats and the White House whereby a limited number of witnesses might be called in a limited time period.

But Mr Clinton's lawyers have made clear that if any witnesses are called they will exercise their legal right to full "discovery" of the evidence – meaning a trial could take up to several months.

In the meantime, the public seems revolted by the spectacle and is happy to make history in another way. Mr Clinton continues to enjoy the highest sustained approval ratings of any president in modern history.

Many trials ahead, Page 4
Observer, Page 17

All-clear for pill on long-term effects

By Clive Cookson, Science Editor

Oral contraceptives have no long-term adverse effect on health, according to the largest study undertaken of the pill.

Clifford Kay, who started the research in 1968 and is still involved, said the results should reassure pill takers past and present. More than 300m women worldwide have used oral contraceptives since their launch in 1959. An estimated 100m are currently on the pill.

"There probably has always been a lurking fear that something dreadful might pop out of the woodwork after 15, 20 or even 25 years, and this study shows clearly that it hasn't," said Dr Kay, of the UK's Royal College of General Practitioners.

The study, undertaken by the Royal College and the Imperial Cancer Research Fund, related death rates to contraception among 46,000 women over a 25-year period.

Some diseases, such as stroke and breast cancer, occur slightly more frequently among women on the pill; others, such as ovarian cancer, are less common. But the research shows that both risks and benefits wear off when women stop taking the pill.

Valerie Beral, director of the ICRF epidemiology unit in Oxford, said: "Our new figures show that, by the time women who've used the pill have been off it for 10 years, their risk of developing these conditions is similar to what it would have been if they had never taken the pill at all."

The oral contraception study is a collaboration involving 1,400 general practices throughout the UK. It began in 1968 with 46,000 women, half of whom were on the pill.

The new findings, published in today's British Medical Journal, focus on the 1,600 deaths that occurred in the group before the end of 1993. By this point, the women had reached an average age of 50 and almost all had stopped taking the pill.

Those who had been on the pill took it for five years on average. Most were on "combined" pills containing 50 microgrames of oestrogen. That is well above the hormone dose contained in today's "low-dose" contraceptives, which are generally regarded as being safer. Many women remain worried about the effects of the pill, said the UK Family Planning Association.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9,484.90	(-80.07)
NASDAQ Composite	2,315.83	(-5.03)
Europe and Far East		
CAC40	4,230.67	(-84.15)
DAX	5,323.21	(-120.41)
FTSE 100	6,101.2	(-47.6)
FTSE Eurotop 300	1,245.39	(-14.93)
Nikkei	13536.56	(+68.10)
US Lunchtime RATES		
Federal Funds	4½%	
3-mth Treas Bills: Yld	4.449%	
Long Bond	100$\frac{11}{32}$	
Yield	5.227%	
OTHER RATES		
UK: 3-mo Interbank	5$\frac{17}{32}$%	(5$\frac{1}{16}$%)
UK: 10 yr Gilt	137.28	(136.99)
BBA Eurolibor	3$\frac{7}{32}$%	(same)
Germany: 10 yr Bund	107.47	(107.53)
Japan: 10 yr JGB	101.15	(99.636)
NORTH SEA OIL (Argus)		
Brent Dated	$11.225	(10.67½)

GOLD		
New York: Comex		
Feb	$292.4	(288.5)
London:	$290.05	(287.55
DOLLAR		
New York: Lunchtime		
£	1.6483	
€	0.8543	
SFr	1.3856	
Y	111.14	
London:		
£	1.6497	(1.6563)
€	0.8568	(0.8532)
SFr	1.3856	(1.3791)
Y	111.14	(112.58)
Tokyo Close		Y 112.85
EURO (London)		
$	1.1671	(1.172)
£	0.7074	(0.7076)
Y	129.708	(131.956)
SFr	1.6171	(1.6163)

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Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.85	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.75	Morocco	Dh18.00	Syria	S£90.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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WORLD NEWS

THE EURO

Danish rates cut as poll backs the euro

By Clare MacCarthy in Copenhagen

The Danish central bank cut interest rates yesterday in response to the continuing strength of the krone. The move came as a poll indicated that for the first time, an absolute majority of Danish voters supported entry into the European single currency.

The cut, which brought the two-week repo rate 0.20 percentage points lower to 3.75 per cent, was the fourth easing of monetary policy in the past two months. The discount rate was left unchanged at 3.50 per cent.

Kirsten Mordhorst, central bank deputy director, said the repo cut reflected the krone's strength and the fact it had remained stable since introduction of the euro.

Denmark is outside the euro-zone but the krone is linked to the euro via the European Union's ERMII, a mechanism which aims to keep the Danish currency within a 2.25 per cent band either side of a central parity rate against the euro.

The krone has stayed on the strong side of its DKr7.46038 central parity since the euro began trading on Monday, and remained stable after the repo rate cut yesterday. In late afternoon trading, it was quoted at DKr7.4431 against the euro, almost unchanged from DKr7.4433 earlier in the session.

Local bond markets gave the cut a warm welcome, with the yield on the 10-year benchmark bond dropping to 4 per cent in afternoon dealings from the previous day's close of 4.05 per cent.

Dealers said expectations of further monetary policy easing sparked heavy demand for Danish government bonds.

In the poll released yesterday, just over 50 per cent of voters canvassed by Greens analysis institute for the business daily Borsen said they would vote in favour of European Monetary Union if a referendum were to take place.

Some 32 per cent said they would vote against the single currency, with the balance undecided.

A similar poll last month had only 43 per cent in favour of the euro. Danish voters opted out of Emu in a 1993 national referendum, but a clear majority would like to see another referendum reversing that decision sooner rather than later.

According to yesterday's poll, almost 40 per cent want an Emu vote this year; about 17 per cent want it in 2000.

A clear majority of Denmark's mainstream political parties are Emu supporters. But the government has been reluctant to set a firm referendum date, pending a definitive shift in public opinion.

Marianne Jelved, economy minister, indicated yesterday that the pace of developments might mean a referendum earlier than previously expected.

Ms Jelved stressed that the shift in favour of the euro came on the heels of intense media coverage of the euro-launch. "It is further proof that the media has an enormous responsibility for keeping the public briefed in an objective way," she declared.

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OBUCHI IN PARIS 'YEN'S PARITY MUST REMAIN STABLE'

Japan's PM calls for currency co-operation

By Samer Iskandar in Paris

Keizo Obuchi, Japan's prime minister, yesterday held out some euro-denominated travellers cheques before an audience of France's business leaders. He said: "I think I paid a little bit too much for them."

Mr Obuchi was trying to illustrate the risks associated with currency fluctuations in a speech to Medef, the French employers' federation, on the first full day of a week-long visit to Europe. The euro had fallen from Y135 on Monday, to Y131 yesterday, with the result that his travellers cheques were now worth less than when he bought them on the first day of trading in the single currency.

"Fundamentally, it is desirable that the yen's parity remain stable," he said, going on to call for greater co-operation between the US dollar, the yen and the euro currency.

"A tripartite co-operation between Japan, Europe and the US would allow the creation of a stable and developed international monetary system," Mr Obuchi said on his first official visit to France since the formation of his government last year.

His comments came after the yen reached a 19-month high against the dollar this week, threatening to hinder his government's efforts to prop up the economy through fiscal stimuli. A sustained rise of the currency could prove damaging to the economy by making Japanese exports more expensive. "I hope the euro will be a stable currency and will gain markets' trust," Mr Obuchi told Medef. Stable currencies contributed to "economic stability and development".

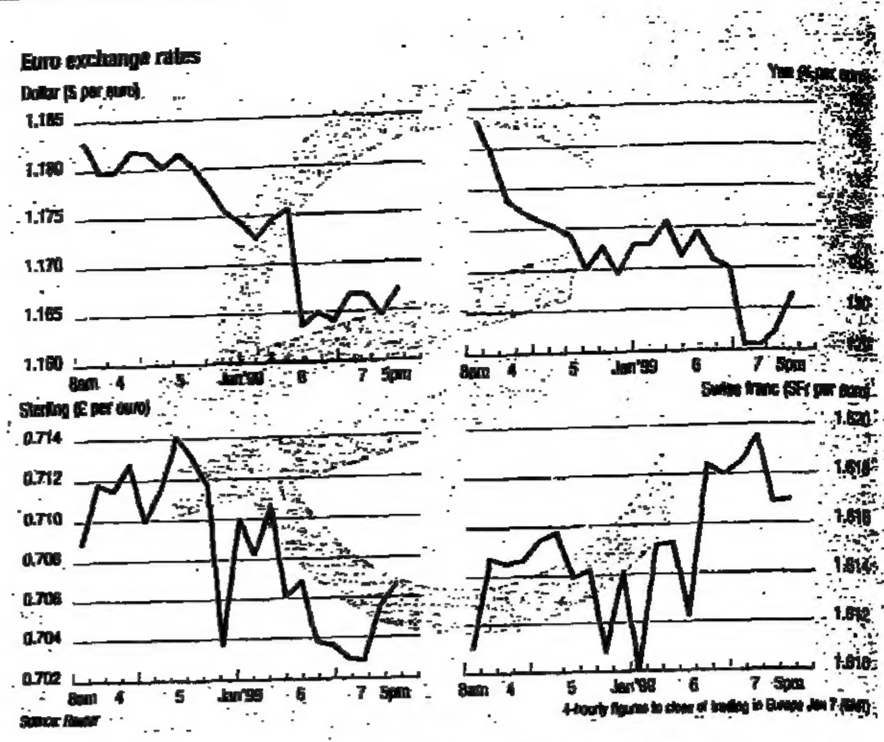
Mr Obuchi, however, stopped short of calling explicitly for currency targets, as advocated last month by Kiichi Miyazawa, Japan's finance minister. Mr Miyazawa had said the launch of the euro would pave the way for talks on possible "loose targets" for currency rates.

Mr Obuchi was concerned with promoting usage of the yen as an international trading currency. His government was implementing "some necessary measures for the yen to be used more often on an international scale".

Only 5 per cent of world trade is conducted in yen, compared with 48 per cent in dollars and 31 per cent in the currencies of the 15 European Union members, according to Japanese finance ministry estimates.

President Jacques Chirac of France echoed Mr Obuchi's call for co-operation yesterday afternoon. He called for "real co-ordination within the G7 [group of the largest seven industrialised nations] to reduce fluctuations between the dollar, the euro and the yen".

The two leaders later said they were committed to working together to enhance "financial supervision" of international investors, including hedge funds. They would also "address issues of exchange rate regimes and improving the IMF's programmes and procedures".



Stability viewed as safety net for leap into unknown

By Wolfgang Münchau in Frankfurt

The "tripolar" international currency system espoused by Keizo Obuchi, Japanese prime minister, will find a receptive audience during his visit to Europe this week. The only question is why.

With the yen in the midst of wild fluctuations, it is not hard to understand why the Japanese government would like some form of arrangement, however loose, to promote stability for its currency.

Why the German or French governments should be exercised over the question of exchange rate stability, however, is less obvious. The core currencies of Europe find themselves at the end of a long period of exchange rate stability, with no apparent need for controls.

Yet Oskar Lafontaine and Dominique Strauss-Kahn, the German and French finance ministers, have both expressed support for target zones. Their concern is for the great unknown that stretches out before a newly minted euro.

While exchange rates between the US dollar and European currencies have been relatively stable throughout most of the 1990s, currency analysts are now predicting greater volatility and possibly a strong appreciation of the euro during 1999.

That, as Lionel Jospin, French prime minister, said on Wednesday, is to be avoided.

The euro should be strong, he said, but not too strong "because then we would lose what we won on the monetary front on the commercial front". Read for this that an overvalued euro could damage exports and so cause job losses, something the governments in neither Paris nor Bonn can afford.

Dominique Strauss-Kahn, France's finance minister meets his Japanese counterpart Taichi Sakaiya AP

In the short term, however, prospects for any form of target zone system being agreed between the big three are virtually zero. The US administration is opposed because an exchange policy for the dollar might upset the carefully calibrated mix of fiscal and monetary policy in the US.

Central bankers in the US and in Europe also recently came out against target zones, arguing that exchange rate targets might in the longer term conflict with domestic price stability objectives. Europe and Japan have nevertheless signalled that they intend to keep up the pressure.

Their eyes are on the medium term. Currency analysts predict a strong devaluation of the US-dollar could trigger a change in US policy.

"The key is the balance of political powers in Congress," said Jim O'Neill, head of currency research at Goldman Sachs. "That would influence the White House. If the Democrats take charge of both sides of Congress in circumstances where the trade deficit is moving the way it is now, exchange rate issues are going to become more important."

Fred Bergsten, director of the Institute for International Economics in Washington and an advocate of target zones, said support was growing in the US. "There are a number of corporate executives who are calling for more stable rates," he said.

In Europe, the introduction of a formal system of target zones would require unanimous approval from all 15 European Union finance ministers. The ECB has the right to be consulted, but has no veto. Yet with the ECB clearly and publicly opposed, any imposition of target zones for the euro by the 15 governments would would raise the possibility of a damaging policy conflicts in the early years of economic and monetary union.

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TRADING IN EURO

Mild teething troubles deter big purchases

By Alan Beattie

Trading in the euro has suffered from mild teething troubles, as markets remain thin and wary after settlement difficulties deterred investors from making large purchases of the new currency.

After an initial burst of strength in the first few hours of trading on Monday, the euro has yet to find a sustained direction.

It fell by nearly two cents against the dollar in a few minutes on Wednesday, as sales of the euro for dollars in a thin market sparked a rush out of the new currency.

With most action in the foreign exchange markets since Monday driven by the dollar's fall against the yen, the euro has yet to develop a character of its own.

And problems with Target, the real-time settlement system, have led to some creeping doubts about the euro-zone central banks' control over trading in the new currency.

Some market participants also blame European central banks for failing to intervene as expected in the markets, causing Wednesday's sharp fall.

In the last hour of foreign exchange trading in Europe on Wednesday, the euro dropped from $1.175 against the dollar to $1.155, more than a cent below the rate at which the new currency was launched.

Market analysts said that sales of euros at about 4pm European time on Wednesday caused a small drop in the value of the currency.

But, said one analyst, "traders then expected the European central banks to come in again with bids for the euro which had been on offer earlier in the day.

"When they did not materialise the euro fell further, and traders who had earlier taken out options to protect themselves against a fall in the currency exercised them, leading to more heavy sales."

Yesterday the euro crawled slowly higher, finishing the London trading session at $1.16.

Tony Norfield, currency strategist at ABNAmro in London, said: "The well-publicised settlement problems with the Target system did not directly cause the euro to fall.

"But they have meant that euro bulls have been wary of entering the markets on a large scale, meaning that positive sentiment on the euro at the moment is not being backed up with capital flows."

Mr Norfield added that foreign exchange dealers had seen few signs of clearing problems themselves.

However, the delays in moving collateral for money market operations around the settlement system had alerted them to the possibilities of logjam in the markets.

Egypt may convert dollar reserves

By Mark Huband in Cairo

Egypt is considering converting part of its dollar reserves into euros, and has opened euro accounts at European central banks. The country's foreign currency reserves come to the equivalent of about $20bn, most of which is in US dollars.

All Europe's main trading partners in the Middle East and North Africa have responded quickly to the launch of the new currency, with a view to reducing currency conversion costs and exploiting the weight of the euro against the US dollar. Banks throughout the region have introduced facilities for trading in euros as well as in payment and settlement operations.

"In the coming period we will be monitoring the market closely. I'm talking about shift and change, which may have an impact on the structure of our reserves," said Ismail Hassan Mohamed, governor of the Central Bank of Egypt.

Egypt's total trade with European Union countries stood at $8.5bn in 1997-98, accounting for 30 per cent of its exports and 39 per cent of its imports. A total $4.5bn of this is accounted for by the top five countries in the 11-member euro-zone. Egypt is hopeful the UK will soon join the zone, because of benefits to Egypt-UK trade, which in 1997 stood at $518m. Tunisia has also moved quickly to reap the benefits of dealing in the euro. Europe accounts for 75 per cent of its annual trade and European currencies account for up to 55 per cent of Tunisia's foreign payments.

The central banks in both Egypt and Lebanon have asserted increasing independence from government in recent years, and the launch of the euro under the control of the European Central Bank is expected to be referred to widely as an example of the benefits of both independence and monetary union.

Gulf currency dealers, whose currencies are all pegged to the US dollar, traded only small amounts in the euro during the first three days of the new currency's life. Dealers were comparing the relative strengths and weaknesses of the euro with the D-Mark and the French franc, though bankers expect euro trading to become fully established within the next few months.

For governments the prospect of denominating bond issues in euros is now widely expected to be considered, marking a big shift away from the US dollar, in which bonds have been routinely issued.

The advantage of euro-denominated debt has yet to be clarified by Arab central bankers. Egypt's total debt stock currently held in the currencies of the euro-zone amounts to $9bn, which the government views as effectively held in euros by virtue of the fixed exchange rates within the zone.

Mr Hassan said no decision had been made as whether new borrowing would be made in euros.

Canada remains the party pooper

Central bank has refused to join the celebrations for the launch of the single currency, giving ammunition to its fellow sceptics, writes **Edward Alden**

Amid all the enthusiasm leading up to the launch of Europe's single currency, the euro, one polite voice of dissent came from an unlikely place, Canada's central bank.

In late 1997, when the project of economic and monetary union was still in some doubt, the Bank of Canada published an article that provided plenty of ammunition for the sceptics.

While a common currency would enhance liquidity and produce significant savings in transaction costs, the bank wrote in its quarterly review it would also make many European countries far more vulnerable to external economic shocks.

"Current opinion and theory indicate that the countries now heading towards Emu [economic and monetary union] do not seem to form an optimum currency area, which means that their venture is essentially political rather than economic," the article concluded.

That harsh judgment, based on the difference in economic structure among the European nations, may have given some comfort to the UK, Sweden and Denmark which have chosen to remain outside the euro zone.

With a small economy that sends more than 80 per cent of its exports to a single market, the US, Canada has long grappled with the arguments in favour of a common currency.

Indeed, on a trade integration basis, the case for a common US-Canada currency is stronger than that for a single European currency. Not one of the 11 members of Emu is as dependent on trade with the rest of the EU as Canada is on trade with the US.

Yet the Bank of Canada has consistently concluded that a common currency with the US, even if it were politically feasible in a country that remains staunchly nationalist, would hurt more than it would help.

The main reason is the different composition of the Canadian economy.

Canada, which generates about 35 per cent of its export earnings from natural resources, is far more vulnerable than the US to economic shocks caused by sudden changes in resource prices.

Last year, for instance, when the Asian financial crisis pummelled commodity prices, the Canadian dollar dropped by more than 10 per cent against the US dollar, as did the currencies of other big resource exporters such as Australia and New Zealand.

John McCallum, chief economist at the Royal Bank, says that defending a fixed exchange rate in the face of falling commodity prices would have forced the central bank "to jack interest rates through the roof, and we would probably be in recession today".

If Canada were sharing the stronger US dollar, Canadian oil, timber and mineral exporters would have been hurt much more than they have been by slumping resource prices. Canada's flexible exchange rate "acts as a safety valve", says Mr McCallum.

A Bank of Canada official said that many European countries, though not as resource-dependent as Canada, are in similar circumstances.

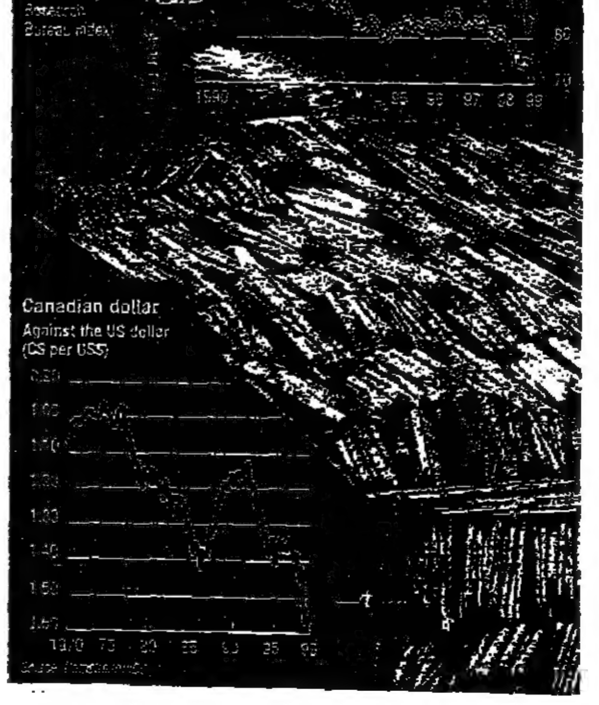
While Germany, France, Belgium, Austria and Luxembourg are sufficiently alike in economic structure to benefit from a common currency, that is not the case for countries such as Spain, Portugal, Greece, Norway, Sweden or the UK. In spite of these arguments, the euro's launch has at least temporarily revived the debate among economists over Canada's independent monetary policy. Critics say the risks of coupling flexible exchange rates with trade integration are at least three-fold: declining productivity, volatility and misalignment of currency values, and the potential that companies and individuals might start doing business in a more stable currency to avoid sharp price fluctuations.

Tom Courchene, a Queen's university economist, argued in a recent paper that the legacy of three decades of floating exchange rates has been a decline in the Canadian dollar from parity with the US dollar in the early 1970s to roughly 66 cents US today.

The "safety valve" of a falling Canadian dollar has helped protect inefficient Canadian industries from adjusting to a more open trading environment, he says. Instead the currency has gradually weakened to reflect those inefficiencies, a self-defeating prospect in which Canadian exports can only be maintained by further currency devaluations. Similarly, European countries outside Emu may find themselves insulated from the competitive dynamics the common currency is expected to create.

Richard Harris, a Simon Fraser University economist, argues that Canada's growing trade integration with the US requires stable and predictable rates of exchange. The volatility of the Canadian dollar, which jumped from 71 cents US in 1986 to 89 cents in 1991 and as low as 64 cents recently, has encouraged many companies to seek greater stability by locating in the US. Countries on the fringe of the euro may also find themselves lagging behind when it comes to attracting foreign investment.

Perhaps the biggest fear for proponents of a common currency is that Canadians may gradually start to hold US dollars as a way to protect themselves from a volatile exchange rate.



While a rising number of Canadian companies are reporting their earnings in US dollars, and are hedging contracts to protect against currency losses, there is little evidence that such a collapse of confidence has occurred. US dollar accounts in Canadian banks, for instance, have not grown significantly over the last decade.

Canada's central bank has yet to be persuaded that any of these concerns outweigh the benefits of exchange rate flexibility. The message to European countries fretting about remaining outside the euro zone? As one central banker put it: "Don't be too alarmed."

Socialists raise stakes in Brussels dispute

By Neil Buckley and Emma Tucker in Brussels

The European Parliament's largest political group, the socialists, yesterday raised the stakes ahead of a censure motion against the European Commission, warning that it would vote to sack all 20 commissioners next week if other groups tried to target individuals.

At the same time, Pauline Green, leader of the socialist group, also warned that the institutional stand-off was jeopardising vital reforms to prepare the EU for eastern enlargement.

It was Mrs Green who last month presented the censure vote, after parliament voted not to sign off the EU's 1996 accounts – challenging the Commission's financial competence following allegations of mismanagement and corruption in some EU programmes.

She had always said that the 214 socialist MEPs would treat the motion as a vote of confidence and would back the Commission.

But following indications that other groups, unhappy with the idea of an indiscriminate censure – parliament's only official sanction against the Commission – would try to find ways to press individual commissioners to resign, Mrs Green said yesterday that the socialist group might change its position.

"If a resolution is passed which says that this commissioner or that commissioner should be sacked then we will vote in favour of the motion of censure," she told journalists.

"If you believe that commissioners have got to resign, you can't sack individual commissioners, you've got to sack the whole lot."

Some other groups interpreted the high-risk strategy as an attempt to frighten them off targeting individuals.

The European Liberal Democrats, parliament's third largest group, agreed on Wednesday to table a non-binding resolution calling for resignation of two commissioners – Edith Cresson and Manuel Marin – responsible for programmes which have attracted the most criticism.

The centre-right European People's party, the second biggest group, was yesterday attempting to win broader support for a strategy involving demanding answers from the Commission to a series of questions on its commitment to putting its house in order.

If its answers were unsatisfactory, the group would launch resolutions targeting individual commissioners.

Jacques Santer, Commission president, admitted this week there had been some management problems – often due to lack of human resources – but fraud cases had been few and small scale.

No commissioners were personally responsible, he added.

D'Alema to meet Pope today in attempt at reconciliation

By James Blitz in Rome

Massimo D'Alema, Italy's prime minister, will today meet Pope John Paul II at the Vatican, an historic encounter that seeks to end half a century of feuding between the Italian communists and the Catholic church.

In an official visit hailed as the latest attempt by Mr D'Alema to overcome his part as a prominent member of the Italian Communist party (PCI), the prime minister is to have a half-hour official audience with the Pope.

The meeting, which will have all the trappings of a state visit, is being seen by commentators as a milestone for Italy's communists and their heirs.

Pope John Paul (left) and Massimo D'Alema: communists were excommunicated 50 years ago AP

Fifty years ago, Pope Pius XII excommunicated all members of the Italian communist party – a move that meant that thousands of PCI members were denied baptism, entry to churches or a religious funeral.

The edict was repealed by Pope John XXIII in 1963. But even after this date and well into the 1990s, the Vatican actively ensured that members of the once mighty PCI were kept at arms length from entering any Italian government.

Last October, when Mr D'Alema became the first former communist to become prime minister, the Vatican's response was notably cool.

The Vatican daily, L'Osservatore Romano, reacted bitterly to his appointment, remarking bluntly that the new premier was "a man from the apparatus of the ex-Italian communist party".

Today's meeting is the tenth time that an former communist statesman has received an audience with Pope John Paul.

It follows attempts by Mr D'Alema to move his party, the Democrats of the Left (DS), away from its communist past.

The party dropped the hammer and sickle from its emblem one year ago.

Mr D'Alema has made clear his admiration for the Pope.

"Massimo is not a believer, it's no secret," said Linda Giuva, his wife, earlier this week. "But he admires the pontiff, he considers him one of the century's great personalities."

Behind the symbolism of today's meeting, there are also thorny issues for the Vatican and the Italian republic to discuss.

The Pope is hoping that Mr D'Alema will carry out a pledge to give state funding to Catholic schools.

Both sides must also agree the exact terms of church-state relations in the area of criminal prosecution, amid a continuing investigation by Italian magistrates into the Archbishop of Naples, who is accused of involvement in a usury ring.

Plan would cut German EU payments

By Ralph Atkins in Bonn

Germany's net payments to the European Union would be cut substantially, while the UK would be €2.4bn ($2.7bn) worse off under proposals put forward yesterday for reforming EU finances by an independent council of economic advisers working for the Bonn government.

Germany would be better off by €5.2bn under the proposals for cutting EU agricultural, structural aid and regional policy budgets by 25 per cent, as well as overhauling the system for determining contributions by member states.

The advisory council also argued that the basis for the UK's EU rebate, negotiated by former prime minister Margaret Thatcher in the early 1980s, no longer existed and should now be surrendered.

"If the UK does not give up its rebate, then you can do practically nothing, you can only make cosmetic changes," said Professor Manfred Neumann, the council's chairman.

The report highlights the political difficulties Germany will face in its efforts to win a significant reduction in its net contribution to the EU, which reached €11bn in 1997 – by far the highest of any member state.

Bonn, which currently holds the EU presidency, argues the planned enlargement of the Union cannot go ahead until the Union's finances are reformed. But if Germany should follow the council's advice, it will meet stiff resistance from the British government, which has said its rebate is not up for discussion.

The council suggested the existing complex mechanisms for determining member states' contributions should be replaced by a system based on member state's national incomes and voting strengths within the EU. Countries receiving money from Brussels for EU programmes should co-finance them to a far greater extent.

Under the advisory council's proposals, France would also benefit by a net €1.6bn. Italy, Spain and Greece would be worse off – although not to the extent of the UK.

German diplomats played down the significance of the report, arguing that the problems of the EU's finances required political, rather than academic solutions. But Werner Müller, economics minister, said the council's report "confirmed" Germany's negotiating position in Brussels.

Accord clears way for Polish steel job losses

By Christopher Bobinski in Warsaw

The Polish government yesterday signed a deal with unions and employers which cleared the way for 17,000 redundancies in the steel industry in the industrial district of Silesia over the next five years.

Coal is heavily concentrated in Silesia, which until now has had an unemployment rate of around 5 per cent, one of the lowest in the country. The national average is just over 9 per cent.

Last year the government introduced a redundancy scheme for the state-owned coal industry, which should cut total employment, currently 246,000, by more than 50 per cent over the next four years.

Over 30 per cent of the steel industry is in private hands and the government is set to complete the sector's privatisation by the end of next year. Talks are currently continuing with British Steel on the takeover of the Huta Katowic steelworks.

Voest Alpine, the Austrian steelmaker, is negotiating a big investment in the Sedzimir steelworks in Krakow. The planned takeover should see around $1.5bn spent on modernising the two mills and will also involve significant redundancies.

The two mills cover half of the industry's 8m ton steel output. Their disposal is being closely watched by the European Commission in Brussels, which has been set the task by the member countries of ensuring that Poland privatises and ends state aid to the sector.

Poland is negotiating an accord with Brussels which would see the EU accepting a target annual capacity for Poland's steel industry of 13.7m tonnes in 2010. The target employment level is set at 40,000 compared with the 90,000 currently employed in the sector.

Under yesterday's accord the state budget will cover a quarter of the 800m zlotys ($228m) redundancy programme. The mills themselves will pay half the total outlay. The remaining 200m zlotys will be paid for through the European Union's Phare aid programme.

Workers near to retirement age will be able to take up their pensions early while others will be offered free retraining courses. A mere 1,500 people will qualify for a 30,000 zlotys one-off redundancy payment. This year a total of 232m zlotys will be spent on the job redundancy scheme, with the employers covering a third of the cost.

The steel accord contrasts with Poland's 4.3bn zlotys coal scheme where the state is paying for the redundancies and is looking for support in the form of a planned $1bn loan from the World Bank.

NEWS DIGEST

PLAN TO DELAY REPROCESSING BAN

German coalition may compromise on N-policy

German government officials indicated yesterday that a compromise had emerged to settle a damaging row within the ruling coalition over its commitment to abandon nuclear energy. Chancellor Gerhard Schröder and his junior partners, the environmentalist Greens, have been locked in a fierce political battle over how quickly the phase-out can be achieved. The Greens want it to go ahead as soon as possible.

The withdrawal was to have begun with an immediate ban on German nuclear waste being sent abroad for reprocessing. But nuclear companies warned that could put them in breach of contract with French and British reprocessing companies.

The economics ministry said it was now discussing a plan to delay the ban for one year with representatives of Jürgen Trittin, the Green environment minister. Mr Schröder's centre-left Social Democrats and the Greens are due to meet next Wednesday to hammer out their differences on the issue. **Reuters, Bonn**

TURKISH POLITICS

Ecevit seeks to form cabinet

Bülent Ecevit, the veteran Turkish political leader, was yesterday asked to form a caretaker administration to run Turkey until elections scheduled for April 18.

Mr Ecevit, a former socialist prime minister, plans to present a cabinet list to Suleyman Demirel, the Turkish president, on Monday, and said he would have no problems in winning a vote of confidence in parliament scheduled for January 17. Mr Ecevit's reappointment as prime minister designate marks the end of a protracted search for a new administration which has lasted since Mesut Yilmaz, the centre-right prime minister, was ousted in a no-confidence vote 43 days ago.

Mr Ecevit is expected to form a coalition with the participation or support of Mr Yilmaz's Motherland party and True Path, the country's other centre-right party led by Tansu Çiller. **Leyla Boulton, Ankara**

ELECTRONIC WHOLESALE BOND MARKET

Lamfalussy to become chief

Baron Alexander Lamfalussy, the former president of the European Monetary Institute (now the European Central Bank), yesterday was named chairman of EuroMTS, the new pan-European electronic wholesale bond market.

Baron Lamfalussy, 69, also a former head of the Basle-based Bank for International Settlements, said EuroMTS was currently the only initiative in Europe "capable of implementing a broadly distributed euro-denominated wholesale government bond market".

EuroMTS is expected to become the reference point used by both Emu governments and financial institutions for the European sovereign debt market.

EuroMTS, a newly created private company incorporated in the UK, was launched last November and trading is expected to begin in the first few months of this year. **Paul Betts, Milan**

KOSOVO CRISIS

Serbs blockade Pristina

Armed Serb civilians blockaded all main roads in Kosovo yesterday, virtually sealing off the provincial capital Pristina, according to eyewitnesses and observers.

The action comes in protest against the killing of a Serb security guard on the eve of the Orthodox Christmas. Serb sources confirmed the cutting of most of the roads and an Organisation for Security and Co-operation in Europe (OSCE) spokesman also confirmed that at least two had been blocked. "People are manning road blocks armed with automatic and semi-automatic rifles. They are not letting anyone through," said an eyewitness.

French president Jacques Chirac called yesterday for renewed diplomacy to solve the Kosovo crisis, saying the six-nation Contact Group should initiate new action and the warring sides should show responsibility. "Strong diplomatic action is urgently required to get out of this dangerous diplomatic impasse," he said. **Reuters, Pristina**

IMPEACHMENT CASE NO ONE YET KNOWS HOW IT WILL PROCEED, LET ALONE END; THOUGH A SHORT TRIAL NOW SEEMS UNLIKELY

Many trials ahead as bargaining goes on

By Mark Suzman in Washington

The most important trial in modern US political history may have begun, but late yesterday it still remained unclear exactly how it would proceed, let alone end.

Even as William Rehnquist, the chief justice of the Supreme Court, was swearing in members of the Senate to act as jurors for the duration of the impeachment proceedings against President Bill Clinton, behind the scenes manoeuvring on their structure and format was continuing.

Following sustained opposition from rightwing Republicans, earlier proposals for a very short trial lasting only a few days seemed dead. Beyond that, however, little seemed certain.

The most contentious issue remained whether witnesses would be called and if so, how many.

Democrats and the White House have strongly opposed such a move, arguing that it would prolong proceedings and was unnecessary given the amount of information already collected by Kenneth Starr, the special prosecutor.

Republicans initially proposed a closed-door meeting of all senators. However, Democrats rejected the move on the grounds it was unlikely to solve the problem.

In a bid to win support for a shorter trial, the White House yesterday indicated that, while the president's lawyers did not believe the record was entirely correct, they were prepared to let the testimony in Mr Starr's report go unchallenged in the interests of a rapid resolution to the crisis – the first time it has made such a commitment.

However, Joe Lockart, Mr Clinton's press secretary, warned if the Senate decided to call witnesses, the White House was prepared to launch a comprehensive rebuttal that could significantly lengthen the proceedings.

"If they insist on bringing witnesses it will significantly extend and delay this process and all bets are off," he said.

But the Republican managers from the House of Representatives – who will act as Mr Clinton's prosecutors in the trial – continued to insist they should be permitted to call key witnesses to support their case that the president committed perjury and obstructed justice in covering up his affair with Monica Lewinsky, the former White House intern.

At the very least, they wish to cross-examine Ms Lewinsky, Betty Currie, the president's personal secretary and Vernon Jordan, a confidant of Mr Clinton.

A small bloc of around 15-20 conservative Republican senators have been backing the House moves, but a similar group of moderates are opposed to having witnesses for fear a drawn-out trial could have damaging repercussions on the party in the 2000 elections.

Republicans hold a 55-45 majority in the Senate, with nearly all the Democrats opposed to a full trial.

In an effort to flesh out a compromise, Trent Lott, the Senate majority leader, was yesterday working on a new plan which would restrict calling any witnesses unless there were conflicts in the testimony contained in the Starr report that required clarification. A majority of members would then have to approve any witness called by either the prosecution of the defence.

If such a proposal is adopted, the trial will most likely begin some time next week, last for around a month, but would not drag on into the spring and summer as many members on both sides fear.

Henry Hyde, chairman of House of Representatives' Judiciary Committee, after reading out charges against Clinton in Senate chamber AP

Microsoft to begin defence next week

By Richard Wolffe in Washington

After 10 weeks of allegations of predatory conduct, industrial sabotage and technical obscurity, the US government's antitrust case against Microsoft entered its final stages yesterday with neither side conceding any ground in the bitter courtroom dispute.

Franklin Fisher, economics professor at Massachusetts Institute of Technology, insisted Microsoft had pursued illegal, anti-competitive strategies to preserve its dominant market position over the computer industry. Microsoft will begin its attempts to demolish Mr Fisher's – and the government's – case when it launches its defence next week with the first of 12 witnesses.

While his evidence has cast no new allegations against Microsoft, Mr Fisher has underscored how the antitrust case revolves more around Microsoft's central product, Windows, than its famously competitive battles over internet software.

He has argued that Microsoft feared its Windows operating software – which drives more than 90 per cent of the world's personal computers – was being undermined by the development of internet browsing software.

The government claims Microsoft feared that such browsing software – which allows computer users to read information on the worldwide web – would displace Windows as the most important and visible software on personal computers.

As the US Justice Department's final witness and chief economics expert, Mr Fisher effectively summarised the government's charges that Microsoft had "created, preserved and increased barriers to entry" in both the operating system and internet software markets.

Microsoft is expected to complete a wide-ranging cross-examination of Mr Fisher's testimony on Monday, including a closed hearing on its secret pricing strategies for computer makers.

However, its real rebuttal will begin the following day with testimony from its first witness, Richard Schmalensee. Mr Schmalensee, Microsoft's leading economics witness, is a close colleague of Mr Fisher as dean of MIT's Sloan School of Management.

He will be followed by a series of Microsoft executives who will be cross-examined by the government's lawyers over a series of internal e-mails. The internal memos have proved to be the government's best evidence of anti-competitive conduct by the company over the course of the trial.

Mr Fisher's evidence has succeeded in switching the court's attention away from the narrow competitive issues surrounding internet software to Microsoft's broader conduct.

This could pose a far greater threat to Microsoft's future, if the court rules in favour of the case brought by the US government and 19 states.

Judge Thomas Jackson intervened in Microsoft's cross-examination earlier this week, indicating an apparent shift of opinion over the impact of the merger between two of the world's largest internet companies.

The judge appeared to reject Microsoft's argument that the merger between Netscape Communications and America Online would pose a substantial competitive threat to Microsoft.

Last month he suggested the merger with Netscape – the internet software pioneer which is Microsoft's alleged victim – could represent a "very significant change to the playing field".

FCC nearing decision on telecoms mergers

By Mark Suzman

The head of the Federal Communications Commission, the chief US telecommunications regulator, yesterday said the agency was planning to rule within six months on three big pending mergers.

Outlining his agenda for 1999, William Kennard added the agency would soon announce new rules designed to speed up internet access for residential users. "Americans want the internet to go faster," he said.

Mr Kennard said he expected the FCC to make in the first half of this year a final decision on AT&T's proposed $32bn (£19bn) takeover of TCI, as well as the $56bn planned merger between SBC Communications and Ameritech and the $52bn purchase of GTE by Bell Atlantic. The FCC is required to assess whether all telecommunications mergers are in the "public interest".

Mr Kennard hinted the FCC was looking favourably on the proposed AT&T/TCI deal, which has already been approved by the Justice Department, as the company was proposing to upgrade its network to provide faster internet access and other services. "It has the prospect of being a very exciting transaction because it is just what Congress anticipated in the 1996 Telecommunications Act [designed to deregulate the domestic US telecommunications market]," he said.

However, the FCC chairman was more cautious about the other two proposed mergers, which are opposed by consumer groups and long-distance companies. The FCC has been involved in a long-running battle with the so-called Baby Bells – regional phone monopolies including SBC, Ameritech and Bell Atlantic – over whether they have allowed sufficient competition in their local market to be permitted to offer long-distance services.

Although he declined to release details, Mr Kennard also said the FCC would this month issue rules to create incentives for companies to invest in high-speed internet access for consumers. Many companies have been delaying making the necessary upgrades to systems because of unresolved disputes over whether and how competing internet service providers might be granted access to their networks.

Mexican bank feels inflation pressures

By Henry Tricks in Mexico City

A year after Guillermo Ortiz took office as governor of Banco de México, a sharp rise in inflation has sapped the credibility of the central bank and put it under additional pressure to meet this year's tough pricing targets.

According to Mr Ortiz, inflation in 1998 was 18.7 per cent, well above the 12 per cent target and higher than the 15.7 per cent annual level he inherited when he took over an autonomous institute whose sole mandate is price control.

The poor performance has forced economists to ratchet up their inflationary expectations for this year. While the government is targeting a rise in the consumer price index of 13 per cent, a recent central bank survey of 26 private economists showed they expected inflation of 16.22 per cent. Some corporations are drawing up their budgets on estimates of 19 per cent inflation or more.

Complicating the bank's task is Mexico's political calendar. Presidential elections will be held in 2000, and Mr Ortiz, an influential member of the ruling Institutional Revolutionary party, is considered reluctant to drive the economy into recession to curb inflation.

Controls on inflation have been undermined by a recent surge in the price of public sector products such as petrol and diesel, putting the onus on the central bank and fiscal policymakers to synchronise efforts.

Late last year Mr Ortiz admitted the fight against inflation had been "unsatisfactory", and he vowed to wrestle it back down this year.

A top aide noted that price increases were largely fuelled by unexpected shocks – such as low oil prices, a 25 per cent slide in the peso, and bad weather. But he acknowledged these were merely "apologies".

"Credibility is the key word this year, and the only way to win back our credibility is to reduce inflation," a deputy bank governor said this week.

Twelve top banks act to cut risks

By George Graham, Banking Editor

Leading international banks have formed a taskforce to tighten up risk management practices in the wake of the near-collapse of the Long Term Capital Management hedge fund last summer.

A group of 12 banks from the US and Europe have formed a committee to set out new industry standards for managing counterparty risk and controlling exposures in over-the-counter derivatives markets. The group is expected to propose new measures this spring.

"The intent is to promote enhanced best practices in credit and market risk management and in compiling key information," the group said in an announcement yesterday.

Some regulators said the initiative could be an attempt to head off the threat of greatly increased regulation imposed by bank supervisors.

The Basle Committee of international banking supervisors is also expected this month to propose new measures dealing with highly leveraged institutions such as hedge funds.

But some leading regulators, including Alan Greenspan, chairman of the Board of Governors of the Federal Reserve, are sceptical about the ability of governments to deal with such risks by increased regulation.

"Twenty-first century financial regulation is going to increasingly have to rely on private counterparty surveillance to achieve safety and soundness. There is no credible way to envision most government financial regulation being other than oversight of process," Mr Greenspan said in a speech.

The industry group is chaired by Gerald Corrigan, former president of the Federal Reserve Bank of New York and now a partner at Goldman Sachs, the investment bank, and Stephen Thieke, another former Fed official who now heads risk management at J.P. Morgan, the US wholesale bank.

NEWS DIGEST

US ECONOMY

Factory orders point to strong finish for 1998

New orders to US factories rebounded in November, partly recovering from a sharp decline the month before, but analysts are watching worrying year-end unemployment benefit applications. Orders rose 0.6 per cent to a seasonally adjusted $337bn following a 1.7 per cent plunge – the sharpest in five months – in October, the Commerce Department said yesterday. It was the fifth increase in six months, suggesting the economy wound up 1998 on a strong note. For the first 11 months of the year, factory orders were 2 per cent higher than the same period of 1997.

Economists have been scrutinising jobless claims at state unemployment offices for signs the global economic crisis might pinch US workers. During the week ended January 2, a seasonally adjusted 350,000 claims were filed, the Labour Department said. That represented a drop of 22,000 but only partly made up for a jump of 83,000 – to 372,000 – the week before. **AP, Washington**

PEACE TALKS

Colombian president snubbed

President Andrés Pastrana of Colombia was snubbed yesterday by Manuel Marulanda, head of the Revolutionary Armed Forces of Colombia (Farc) guerrilla group, who failed to turn up at the start of formal peace talks.

An opening ceremony in San Vicente, a remote jungle town, was packed with government officials, diplomats and foreign guests. Guerrilla spokesmen had earlier cited security concerns as a possible reason for Mr Marulanda to boycott the meeting, which marked the start of talks to agree an agenda and venue for full-fledged negotiations between Farc and government representatives later this year. **Reuters, Bogotá**

PINOCHET HEARING

Legal rift with Santiago

A breach between the Chilean government and the country's former leader, Augusto Pinochet, emerged yesterday when it became clear they will adopt different legal arguments before a House of Lords hearing later this month. British law lords will decide at the hearing whether Gen Pinochet can be extradited to Spain to be tried under torture, conspiracy to murder and hostage-taking charges.

Santiago will not argue that Gen Pinochet has immunity from prosecution as a former head of state, as the former dictator's lawyers have consistently argued. Instead, according to its petition submitted to the House of Lords yesterday, the Chilean government will argue the proceedings to extradite the general to Spain to stand trial amount to a fundamental infringement of Chile's sovereignty.

This is despite the fact that Chile, under Gen Pinochet's leadership, signed international conventions outlawing torture and other crimes against humanity.

Gen Pinochet's lawyers are expected to repeat their main argument that he is immune from prosecution as a former head of state.

The House of Lords will decide next week whether the Chilean government will be allowed to address the main hearing, which starts on January 18. The hearing follows the Lords' unprecedented decision to quash its first ruling removing immunity from Gen Pinochet because one of the law lords failed to declare his links to Amnesty International, the human rights group. **John Mason, London**

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ANGOLA DIAMOND MINE AMBUSH REBELS KILL FOUR MINERS AT KEY GOVERNMENT PROJECT ☐ MINING COMPANIES TIGHTEN SECURITY

Unita attack worries foreign investors

By Gillian O'Connor in London

Foreign mining companies in Angola were re-examining their positions yesterday after four diamond miners were killed in an ambush by an armed band believed to be Unita rebels.

The attack came just two months after an attack at a Canadian-owned mining site left eight employees dead, 16 injured and 10 missing. Unita claimed responsibility for the first attack – at Yetwene on November 8.

The four reported dead yesterday included Patrick Bergin, a British civil engineer and manager of the Angolan mining project, Mario Trepechio, a Brazilian, and two Angolan guards. The attack occurred on the road to the Luzamba headquarters of the Cuango project operated by Sociedade de Desenvolvimento Mineiro de Angola SARL (SDM). Melbourne-based Ashton Mining has a 33 per cent interest in SDM, alongside the state company Endiama and the Brazilian Odebrecht.

The attack took place even though SDM employs a security force of over 500, at a cost of $1.3m a month.

The four employees who died were travelling from an important new development of Luzamba, the country's biggest diamond project, in a lone vehicle.

Luzamba has been tossed to and fro between the government and the rebels as the fortunes of war have changed. Until 1992 it was a government project, but was under rebel control until the start of 1998.

Official large-scale mining only recommenced in August, and is expected to produce substantial revenues for the government. Analysts said the attack was one of a series by Unita designed to intimidate miners and worry foreign investors. But it seemed unlikely that the latest incident would stop either local people or foreign companies continuing to mine diamonds in Angola.

• Ashton said yesterday it had instructed Control Risks, its security adviser, to accelerate its review of Angolan arrangements. And DiamondWorks, the Vancouver-based company involved in the November attack, said it was still hoping to reopen its mine at Yetwene, though no date has been set.

Angola is the world's fifth largest source of diamonds, with an estimated 5.3m carats of rough stones worth about $800m produced in 1997. Most of the mining consists of small scale illegal operations by or for the Unita rebels. One crude precis of government/rebel finances is that the government is financed by oil and the rebels by diamonds, but Luzamba will give the government a strong additional source of cash.

Blair builds on ANC ties with Labour party

By Robert Peston and Victor Mallet in Pretoria

Thabo Mbeki is a politician who chooses his words with care. So when the deputy president of South Africa said yesterday that the UK could never be "just another country", there was almost certainly a deliberate ambiguity.

Tony Blair, who is in Pretoria on a charm offensive, would like it to mean there is a special relationship between the two governments, because of their historic economic ties and the close links between the British Labour party and the African National Congress.

Partly because of a British colonial involvement in southern Africa, the UK is South Africa's biggest trading partner – two-way trade is worth £5bn a year – and the largest foreign investor, with about £10bn invested.

The future spoils for Britain could also be immense, according to Mr Blair's advisers, in terms of investments, exports and an association with the country expected to lead the regeneration of the African continent. And the UK prime minister has identified Mr Mbeki, expected to become president on Nelson Mandela's retirement in the spring, as crucial to his ambitions.

It should also be good for South Africa – with its modern economy and vigorous, four-year-old democracy, but feeling somewhat isolated at the tip of a continent plagued by wars and poverty – to have a close friend in Britain.

But the UK's colonial past has left scars and members of the South African government seem wary of the notion that the UK should be South Africa's bridge to the European Union.

And there is evidence of the dangers of an exclusive relationship. The UK's staunch support for South Africa in its prolonged negotiations to secure a favourable trade deal with the European Union has not delivered a way through an impasse over exports of South African port and sherry – although Mr Blair was hopeful of progress.

In most respects, however, the relationship between the two governments seems close. Esop Pasad, senior aide to Mr Mbeki, stressed that the struggle against apartheid had created many personal links between Labour and the ANC.

Mr Blair and Mr Mbeki also share an ambition to transform their societies, their systems of government and their own political parties. The challenges facing Mr Mbeki – who presides over a racially divided society with high levels of illiteracy and an unemployment rate of 30 per cent – are more formidable.

Like Mr Blair, Mr Mbeki has to deal with left-wingers who nominally support the ruling party – the trade unions and the South African Communist Party are in a formal alliance with the ANC – but embarrass it when the government tries to convince foreign investors of its commitment to a free-market economy. And the two men are both trying to combine economic success with welfare state modernisation.

It is matters such as these that have been discussed in meetings between members of Mr Blair's policy unit and their counterparts in Mr Mbeki's "co-ordination and implementation unit".

Special relationship: Tony Blair with Nelson Mandela yesterday

Agreement on $5bn weapons offset deal

By Victor Mallet

South Africa's plan to buy R30bn ($5bn) of weapons from British and other European arms exporters may benefit from a multinational financing package, according to an agreement signed in Pretoria yesterday by Tony Blair, Britain's prime minister, and Thabo Mbeki, South Africa's deputy president.

The declaration of intent – on the financing of the arms purchases and the proposed "offset" investments in South Africa by the winning bidders – says Britain and South Africa "will explore co-ordination of the finance arrangements between the successful bidders for the defence equipment contracts from Britain, Germany, Sweden and Italy".

In November, South Africa named its preferred suppliers to modernise its ageing defence equipment, with the biggest proposed order of R10.9bn going to the partnership between British Aerospace and Saab of Sweden to supply 28 Gripen fighters.

South Africa, anxious to increase the flow of foreign direct investment into the country, has secured assurances from the preferred bidders that they will invest a total of R26bn in defence and civilian industries in exchange for the R30bn of planned orders.

The South African government is also keen to win financing on favourable terms for the purchases, which will strain its budget for the next decade. Trevor Manuel, finance minister, has emphasised that no deals have yet been finalised and that all parts of the defence package will be subjected to an "affordability check".

Mr Blair and Mr Mbeki agreed yesterday that British and South African officials would meet regularly to monitor the fulfilment of the offset commitments by the British arms manufacturers. Mr Blair said the agreement "could yield very, very substantial benefits for both of our countries in terms of jobs and investment and trade".

Referring to a British military aid programme to reform the South African armed forces following the end of apartheid, Mr Blair said Britain was not only South Africa's biggest investor and trade partner but also had "a special defence relationship with South Africa".

NEWS DIGEST

SIERRA LEONE

President and rebel leader order ceasefire

Sierra Leone President Ahmad Tejan Kabbah said yesterday that he and rebel leader Foday Sankoh had ordered an immediate ceasefire in the fighting in the capital, Freetown. Mr Kabbah read out a statement from Mr Sankoh in which the rebel leader said: "Both parties ordered an immediate ceasefire so as to stop this carnage and this foolish destruction of our very limited resources."

Earlier, Mr Kabbah told a news conference at Freetown's Lungi airport town where he is sheltering from the fighting that he was prepared to free Mr Sankoh, who is under a death sentence for treason, if he agreed to certain conditions. Mr Kabbah listed the conditions as "an immediate ceasefire, adoption of the (1996) Abidjan Charter and consultations with my cabinet colleagues". If those conditions were met, after seven days he would release Mr Sankoh, he said. The rebels said on Wednesday they would stop fighting Nigerian-led West African intervention troops if Mr Sankoh was freed. **Reuters, Freetown**

ISRAELI ECONOMY

Inflation target raised

Benjamin Netanyahu, Israel's prime minister, said yesterday the government would raise its inflation target for 1999 in an attempt to jump-start the sluggish economy ahead of elections scheduled for May 17. "Lowering inflation is less important at a time of world recession," said Mr Netanyahu, pledging not to lift the target to an "irresponsible extent". The announcement marks a shift in Mr Netanyahu's economic policy. Since his election in 1996, the government has fought inflation and cut the budget deficit despite relentless criticism from the business community.

This week, the finance ministry said Israel met its budget deficit target of 2.4 per cent of gross domestic product for 1998 – but only because of an unexpected injection of nearly Shk3.9bn ($937m) from the Bank of Israel's reserves. Analysts expect the inflation target to be lifted from 4 per cent to 6 per cent later this month. Inflation was 7 per cent in 1997, the lowest in 30 years, but is expected to climb to about 8.5 per cent for 1998.
Avi Machlis, Jerusalem

NIGERIA FUEL

Price rise is moderated

Nigeria's military government bowed to popular pressure yesterday and reduced last month's huge 127 per cent rise in fuel prices. A new price ceiling was set for petrol of 20 naira (18 US cents) a litre, 20 per cent down on the original rise. Trade unions had threatened strike action. The big rise was aimed at easing crippling fuel shortages and ending subsidies the government can no longer afford. Popular anger at the price rise, which forced a dramatic rise in transport costs and has yet to have a significant impact on fuel scarcity, led to rioting in parts of the commercial capital, Lagos, this week.

One Lagos-based economist said the climbdown demonstrated weakness by the government could encourage popular pressure to reverse austerity measures. **William Wallis, Lagos**

IDA loan guarantee for Abidjan power plant

By William Hall in Zurich

The International Development Association (IDA), the soft-loan arm of the World Bank, has issued its first loan guarantee for a private sector project, clearing the way for a $223m financing of the largest gas-fired power station in west Africa.

The IDA, which has lent more than $100bn at concessional interest rates to the world's poorest countries, has been under increasing pressure to help mobilise private capital for projects in countries not regarded as sufficiently creditworthy by commercial banks.

The $30.3m IDA guarantee, the first to be issued by the association under a $300m pilot programme approved in November 1997, acted as a catalyst for the Ivory Coast's biggest commercial bank financing.

The 288MW Azito power plant, on the outskirts of Abidjan, the Ivory Coast capital, is being financed by $45m of equity, $140m of senior debt, $20m of subordinated debt and $15m of internal cash flow.

Some $48m of the senior debt is being provided by a loan from several bilateral and multilateral institutions, led by the Commonwealth Development Corporation. The International Finance Corporation (IFC), the World Bank's private investment affiliate, will take a further $30m of the senior debt on its own books and another $30m will be syndicated among commercial banks.

The IDA guarantee is understood to have been critical to mobilising the $60m commercial bank financing for the project. It protects lenders against the government's failure to meet payment obligations under concession and transmission agreements.

The project sponsors had tried to increase the commercial bank participation under the IFC umbrella. But Farida Mazhar, of the IDA's project finance department, said recent problems in emerging markets had limited the banks' risk appetite and the IDA guarantee was needed to make the project's risk profile acceptable to the $60m commercial bank loan syndicated by Société Générale.

Bertrand de la Borde, of Société Générale's project finance department, said the IDA guarantee had proven to be a "very valuable and powerful tool" in attracting private sector financing to one of the world's poorest countries.

The new power plant will generate about a third of the Ivory Coast's electricity, where demand is growing by 10 per cent a year. It is being developed on a build-own-operate-transfer basis, with a 24-year power purchase agreement granted by the government of the Ivory Coast.

It will be the biggest independent power producer in sub-Sahara Africa and will be operated by Cinergy, a special purpose company jointly owned by ABB Energy Ventures, Electricité de France and Industrial Promotion Services, an affiliate of the Aga Khan Fund for Economic Development.

Hong Kong's copyright law finds few friends as pirates occupy 'twilight zone'

Louise Lucas on how parallel import legislation is hampering retailers

Mulder and Sculley, well schooled as they are in the workings of the paranormal, would be mystified by Hong Kong. Their X Files' video discs, subtitled in Chinese, are being sold for a song at stalls across the territory, but there is no sign of the full-price, unsubtitled version.

Welcome to Hong Kong's twilight zone, or what one retailer calls the "piracy window": the time between cinema release and official home movie release. It is a staggered timetable zealously guarded by the entertainment industry, eager to maximise profit out of each medium.

Breaking it should be easy, given the different release timetables across the globe. But parallel imports, or sidestepping the official distributor to bring in overseas products, is banned in Hong Kong, so the pirates move in with helpfully subtitled versions instead.

They are illegal too, but the pirates' *modus operandi* (wooden wheeled cart, roll of plastic sheeting, darting eyes on the look-out for policemen) makes it easier to elude upholders of the law. Would-be parallel importers, by contrast, are brand-name shops, making it harder to hide products that breach the law.

Retailers say they dare not take what should be a commercial risk of chancing parallel imports as they would face criminal sanctions: HK$50,000 (US$6,450) per unit and four years in jail – the same penalty as pirates.

The law in question is the Copyright Ordinance, passed on the cusp of the handover of sovereignty in July 1997. Its passage was accompanied by vigorous and lengthy debate, but 18 months on, the resulting legislation has critics even among those whom it protects – such as movie producers and local Cantopop stars – and it has reappeared on the parliamentary agenda.

Leading the charge are the retailers. Their arguments are compelling: Tower Records, the music and entertainment retail chain, laments its reduced stock and higher prices. The ban on parallel imports means it can only offer products available through local distributors, and these distributors are loath to deal in small quantities of non-mainstream goods: Oasis compact discs are fine, obscure jazz recordings are not.

Retailers further claim that distributors promptly raised prices on becoming monopoly suppliers. Previously, retailers were able to source their goods from the cheapest vendor; now they are restricted to one distributor.

KPS, the territory's biggest video retailer with some 230,000 customers, collapsed late last year, at least partly as a result of the parallel import legislation. Formerly able to offer a broad range of products, it found its selection heavily depleted when forced to rely on local distributors. These distributors are less willing to cater to the tastes of expatriates (7 per cent of the population) and overseas educated locals, both markets championed by KPS.

The law allows for retailers to request permission from official distributors to import goods which the distributor is not prepared to supply, but in practice this provision has proved unworkable, as even the government admits.

"It seems (the process) did not work, but we are not quite sure why," says Ada Leung, acting assistant director of the intellectual property department. Retailers tell of fruitless calls and letters to distributors and say that distributors can prove elusive when a would-be parallel importer is on the other end of the line.

Censorship can be neatly exercised by distributors buying up rights – and neglecting to distribute. Money is paid upfront when film rights are bought, but the sometimes blurry lines between business and politics – especially with regard to China, where broadcasters are keen to expand – means that it may not be wasted money for the distributor if it builds up credit in Beijing.

A film critical of Chairman Mao was bought locally, but has never been aired in the territory. Red Corner, in which Richard Gere plays a businessman locked up in China, is unobtainable although the distributor says it will be available "we just don't know when".

Robin Bridge, a lawyer specialising in property rights, says: "Undoubtedly it's a provision which assists censorship... It's sad these restrictions were imposed so close to the transfer of sovereignty."

Some quarters argue for even tougher legislation. In the pharmaceutical industry, as well as foods and beverages, parallel importing has taken off in the wake of the Asian financial crisis. Currency devaluations mean prices in Hong Kong – which maintained the value of its currency through its link with the US dollar – can now be double or more those of comparable products in other parts of Asia.

Pirated discs seized by customs on display late last year — Reuters

Another sector with a keen interest in preserving or even tightening the existing legislation is Hong Kong's home-grown movie industry, the third biggest after Hollywood and Bombay.

The industry argued that to allow parallel imports would be to damage the domestic industry – especially given the fact that lower prices were available just a hop across Hong Kong's (rather long and porous) border.

These and other arguments are landing squarely on the shoulders of Selina Chow, a legislator who played a leading role in putting the ban on the statute books, and the government. Mrs Chow says of the law: "It was controversial but it's fair to say in most markets you do have similar restrictions."

Mr Stephen Selby, director of the government's intellectual property department, agrees the law is "non-politically correct" and anathema to free trade and free markets. "We're here to protect authors and artists," he shrugs. "Someone else must protect the others."

Blockbusters takes over KPS, Page 22

NEWS DIGEST

US STEEL MARKET

Clinton plans crackdown on low-priced imports

President Bill Clinton and his economic advisers were yesterday drafting plans to crack down on a flood of cheap steel imports, White House officials said. A report to Congress will indicate more aggressive steps to ensure that trade laws were enforced, an official said. In response to demands for tougher action, the White House has been scrambling to come up with a formula to curb imports without abandoning America's traditional free trade stance.

It was unclear what steps would be put forward but officials doubted that there would be formal limits on steel imports as the industry and some steel state Congressmen are demanding. Foreign producers such as Russia, Japan, Brazil and South Korea, reeling from the global financial downturn, have been flooding the vibrant US economy with steel at prices US manufacturers cannot match. Tackling the problem is a political hot potato because Clinton is sympathetic to the steel industry's concerns but does not want to inflame the world financial crisis by punishing countries responsible. **Reuters, Washington**

ROCKET CONTRACT

Mitsubishi in Boeing deal

Mitsubishi Heavy Industries (MHI), Japan's largest machinery manufacturer, has signed an agreement with Boeing to supply engine valves and fuel tanks for the Delta IV, the US aerospace group's next-generation rocket scheduled for its first launch in 2002.

The Japanese group will become the first major non-US contractor to participate in the project. MHI also supplied Boeing with parts for the Delta III, the model's predecessor, from 1995, and helped with the design of the US company's 767 and 777 aircraft.

The contract is a boost to MHI, which admitted this week that orders for ships, chemical plants and industrial machinery had collapsed as a result of the Asian economic crisis last year.

The Delta IV is part of a $1.38bn collaborative project led by Boeing and sponsored by the US Air Force to build a low-cost, environmentally safe rocket. It is powered by a liquid hydrogen and liquid oxygen burning engine, and will be built and assembled at several sites in the US, according to Boeing. **Alexandra Harney, Tokyo**

AIRLINER MARKET

China's $130bn outlook

Chinese carriers will spend $130bn on new aircraft by 2017, according to Airbus Industrie, the European consortium. Airbus said yesterday airlines based in China would need 1,381 new aircraft with 70 or more seats, to cope with increasing air travel and fleet renewals. The Asian crisis would have "only limited impact on demand in the long term", said the group, which is forecasting "sustained growth in the market".

At the end of 1997, Chinese airlines were operating 425 aircraft, 137 of which would still be flying in 2017. Consequently, the companies would need to buy 288 aircraft to replace those getting obsolete and 1,093 to expand capacity. In 2017, Chinese airlines would account for 10 per cent of the world market, up from 5 per cent now. **Samer Iskandar, Paris**

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Canberra tax breaks offer on big projects

By Gwen Robinson in Sydney

The Australian government yesterday announced unprecedented tax breaks for foreign and domestic companies involved in private infrastructure projects worth nearly A$1bn (US$613m). The assistance, valued at A$71m (US$43.5m), would be the first under the government's new infrastructure tax rebate scheme and would apply to British, Japanese, US and Australian companies.

The scheme was proposed by the conservative coalition shortly before its re-election last October to facilitate projects it said would enhance economic development. Tim Fischer, deputy prime minister, said the scheme in its first round would help create 6,800 new jobs, mostly in regional areas and would boost economic growth.

Another factor in the scheme, however, was growing official concern that Australia's tax regime was becoming more unattractive in a tightening climate for project finance. Some officials have warned that large, complex infrastructure projects would face increasing difficulty gaining competitive bids and financing arrangements without some form of incentive for companies involved.

Under the government's infrastructure borrowings tax offset scheme, tax breaks would be subject to environmental clearance and final approvals, Mr Fischer said. The largest of the first four would be A$32.6m in rebates over five years to Duke Energy of the US for a 800km liquefied natural gas pipeline from Victoria to New South Wales. Construction of the A$400m pipeline, to be built and operated by Duke, will start mid-year for completion by late 2000.

The three other projects to get tax rebates, also over five years, are:

- A planned A$170m upgrade of Adelaide airport terminal in South Australia by a consortium led by Manchester Airport and Serco Group, both of the UK. The project would get A$15.3m.
- A planned A$154m electricity and steam co-generation plant in New South Wales, being developed by Alise Energy Australia, a unit of Japanese trading company Itochu, which would get A$10.4m in rebates.
- A proposed A$113m extension of a road project in Melbourne, and the development of an automated electronic toll collection system, which would get A$12.6m in rebates. NEC Australia was involved in the toll system.

The four projects were chosen from 35 applicants.

Shares soar as earnings confidence strengthens

By Gwen Robinson

The Australian stock market shook off its mid-summer torpor to reach record highs yesterday, reflecting renewed confidence in corporate earnings outlooks and recent economic growth projections.

In currency markets, the Australian dollar jumped nearly one US cent to US$0.6318, its highest level in more than a month, spurred by a rise in commodity prices and active trading in the currency by US banks.

The stock market's benchmark All Ordinaries Index jumped 43.9 points to end at 2897.3, a gain of nearly 7 per cent in just two weeks and nearly 17 per cent from its October lows.

Analysts said investors were encouraged by strength in overseas markets. Local factors, however, were the driving force, said Robert Credaro, strategist at Macquarie Equities in Sydney. "Slowing global growth and pricing pressures on commodities and cyclical areas mean lower inflation and lower bond yields – that's all great for equities. But offshore markets are irrelevant here, apart from the issues which affect all stock markets."

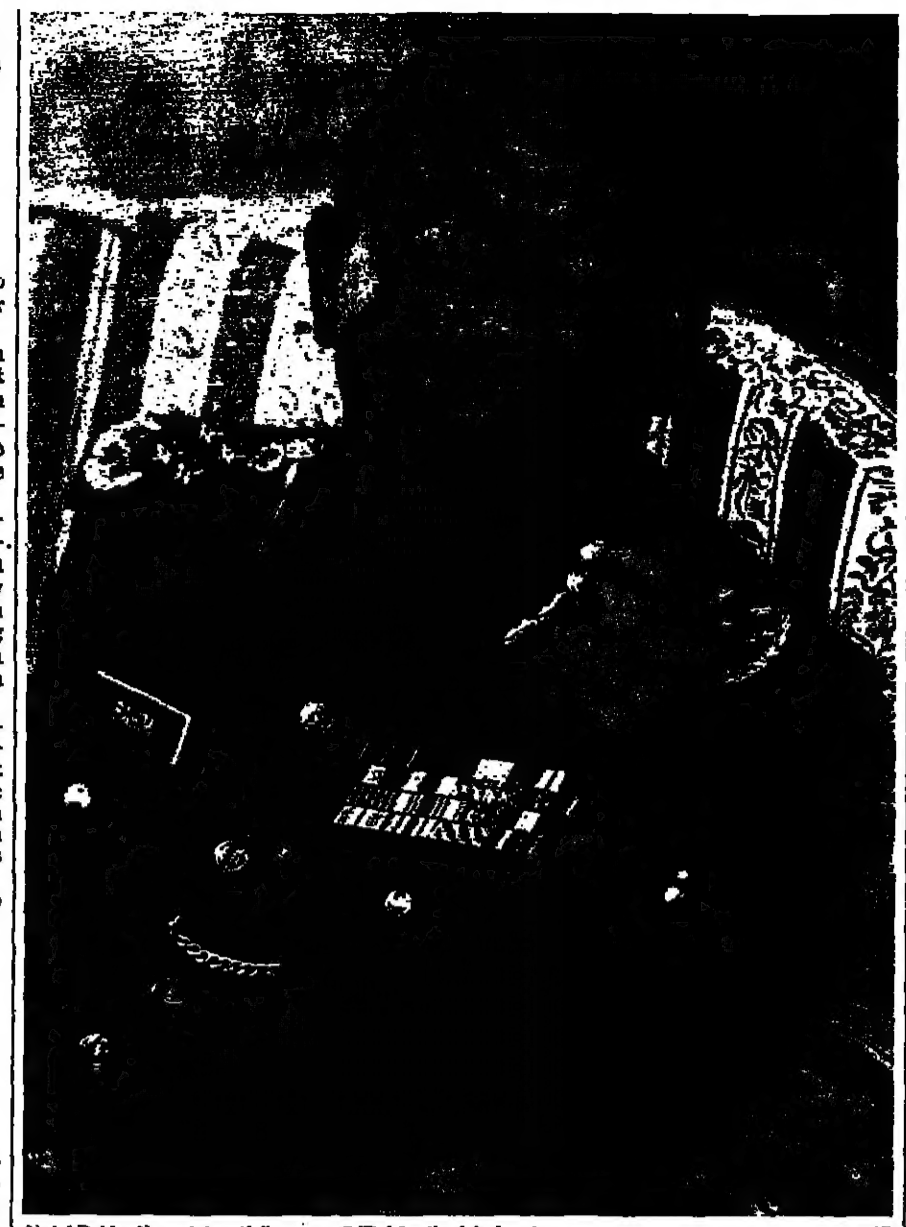
The most important factor, he said, was a recovery in confidence toward banks and other financial stocks, which represent about 25 per cent of the market. In the second half of last year, financial stocks fell sharply on concerns about their exposure to Asian and other emerging markets. Most large banks and financial services companies, however, went on to report healthy profits for the year and prove their exposures relatively limited.

"There was a spillover effect from the regional meltdown, Russian upheavals and other factors... The market was cheap three to five months ago. People were imputing too much risk in sectors such as banks and financials. Now, they're up about 30 per cent from their October lows and they're looking expensive," Mr Credaro said.

In Thursday's trading, mining and other resources stocks continued to suffer from the poor outlook for commodities prices. Since the mid-1980s, resources stocks have seen their share of the index plunge to about 18 about per cent from nearly 40 per cent in the 1980s. But for most industrial stocks, particularly those linked to the consumer and services sides of the domestic economy – there was growing confidence that earnings per share growth would reach 7 per cent in the year to June.

Many brokers are in the process of upgrading their profit forecasts for the year and an official survey of business expectations published this week showed Australian business generally expected profits to grow by about 13 per cent in nominal terms in calendar 1999.

Government's projections of slowing growth and falling trade in 1999 had not damped the market's enthusiasm, mainly because such forecasts had been "well and truly factored in," said one analyst. Australia's 1998 growth of nearly 5 per cent exceeded all expectations.



Abdul Rahim Noor: takes 'full responsibility' for the injuries done AP

Malaysian police chief quits over Anwar beating

Malaysia's police chief resigned yesterday, taking responsibility for injuries inflicted on Anwar Ibrahim, the sacked finance minister, in police custody three months ago, Reuters reports from Kuala Lumpur.

Abdul Rahim Noor, inspector-general of police, bowed to a wave of indignation set off when Mr Anwar appeared in court in September with a black eye and bruises on his neck and hands, saying he had been beaten while in custody.

Mahathir Mohamad, the prime minister, suggested at the time that that Mr Anwar's injuries could have been self-inflicted, but this week Mohtar Abdullah, attorney general, pinned the blame for Mr Anwar's injuries on the police.

"I, as the inspector-general of the Royal Malaysia Police, assume full responsibility," Mr Rahim Noor said in his resignation statement.

But it was not clear whether the police chief's departure would put an end to a controversy over police treatment of Mr Anwar, who until he was sacked as finance minister and deputy prime minister was leader-in-waiting but now is standing trial on sex and corruption charges.

Opposition leaders and rights activists have accused the attorney general of keeping the public in the dark over Mr Anwar's injuries and called for him and Mr Mahathir to step down.

"Public confidence would suffer another grievous blow if Malaysians and the international community are made to feel that Rahim Noor's resignation is just an excuse for a cover-up and the ending of all investigations into the police beatings of Anwar while in police custody," said Lim Kit Siang, the parliamentary opposition leader.

Mr Mohtar confirmed on Tuesday that police had injured Mr Anwar after he was arrested, but said a police investigation had failed to identify the person or persons responsible in spite of interviews with 63 policemen. After that Mr Mahathir said he would consider demands for an independent inquiry into Mr Anwar's injury.

NEWS DIGEST

WORLD BANK GUARANTEE

Thai power body 'has breached loan condition'

The World Bank is "actively monitoring" whether the Electricity Generating Authority of Thailand (Egat) has breached a condition which enabled the Thai borrower to issue a $300m bond last October. The bond – one of the first to be issued by an Asian borrower since the crisis began in 1997 – was possible only because of the partial guarantee provided by the World Bank. This enabled Egat to obtain a higher credit rating on the bond, thus attracting investors to buy the paper.

However, Egat is believed to have breached the covenant on the guarantee by reducing its electricity charges after having told the World Bank it would raise them. "Egat has breached the covenant on World Bank loans in the past," said a London banker. "Previously the World Bank has agreed to overlook breaches." An official at the World Bank said that if the breach had occurred it would affect the bank's "willingness to approve new guarantees" under its programme. **Edward Luce, Capital Markets Editor**

JAPANESE ECONOMY

Household spending increases

Japanese household spending crept up 1.3 per cent in November compared with the same period the year before, according to a monthly survey by the Management and Co-ordination Agency released yesterday.

But economists said the increase, which followed a 1 per cent decline the month before, reflected a spending spree triggered by a series of discount sales by supermarket and convenience store chains, and cautioned that the survey was considered an unreliable measure of actual spending. Families in a small sample of households polled by the government agency spent an average Y316,079 ($2,800) in November, the same month when Ito Yokado, a leading supermarket operator, launched a discount sale. **Alexandra Harney, Tokyo**

CHINESE CONSTRUCTION

'Buy-local' order to builders

China has issued an instruction that state construction units should use domestic materials in building infrastructure under the state's fiscal stimulus plan, official newspapers said yesterday.

The order, issued by the powerful State Economic and Trade Commission and the State Development Planning Commission, said that materials should be bought only from reputable medium and large domestic manufacturers. Only where the item was not available from local producers could it be imported.

The buy-local order follows a similar instruction late last year to China's telecoms companies to buy local telecoms equipment. **James Kynge, Beijing**

TAIWANESE TRADE

Exports fall by 9.4%

Taiwan's exports, the engine of the island's growth, slid to US$110.64bn last year, down 9.4 per cent compared with 1997, the Ministry of Finance said yesterday. Taiwan suffered a US$291.3m trade deficit in December, and its surplus for all of 1998 was down 22.9 per cent at US$5.9bn, officials said. Sluggish domestic demand reduced 1998 imports to US$104.74bn, down 8.5 per cent from 1997 – although Taiwan still suffered a record US$17.69bn deficit with Japan. **Mure Dickie, Taipei**

Vietnam party expels dissident

By Jonathan Birchall in Hanoi

The Vietnamese Communist party has expelled a veteran party member who has emerged over the past 12 months as the most outspoken advocate of fundamental reform of the country's political system.

The decision to expel the retired general, Tran Do, from the party is seen by diplomats in Hanoi as evidence that Vietnam, like China, is tightening controls on dissent in the face of growing pressures from the Asian economic crisis.

However, in contrast to the situation in China, Tran Do is a member of Vietnam's political elite, who served on the Communist party's powerful central committee, gaining a reputation as a liberal before he was removed in 1991.

Since late 1997, Tran Do has written a series of lengthy, critical letters to the party's top leadership, which were unofficially circulated in Hanoi. Initially inspired by an outbreak of rural unrest in his home province of Thai Binh, the general argued that the party was losing the confidence of the people and needed to embrace radical reform in order to save itself.

His letters have included calls both for the easing of controls on freedom of expression and for free elections. In his most recent letter late last year, Tran Do wrote that Vietnam was "a society without liberty, always threatened by reversals, without future or facing a very precarious future".

Party and government leaders at first responded by claiming the general's views were part of normal internal debate within party ranks. However, last year, the official media staged a press campaign against Tran Do, accusing him of disloyalty to the party.

China renews attack on US technology report

By James Kynge in Beijing

China yesterday condemned for the second time in two weeks a US congressional report which alleges that Beijing has been for decades engaged in a concerted effort to steal US technology and has harmed US national security.

Zhu Bangzao, foreign ministry spokesman, said the report was groundless. He expressed China's resentment and firm opposition.

"Obsessed with the Cold War mentality, a few congressmen run counter to the historical trend and fabricate rumours out of thin air in an attempt to obstruct improvement in Sino-US relations," Mr Zhu said.

"They are doomed to failure," he added.

The report, which remains classified, finds that US national security has been harmed by the transfer of militarily useful technology to the Chinese. It was compiled during a six-month inquiry by members of the House of Representatives after allegations that Hughes Electronics and Loral Space and Communications had transfered sensitive missile guidance technology to China after the destruction of satellites belonging to the two companies in Chinese rocket launch explosions.

Diplomats in Beijing said China was preparing a sustained defence against allegations expected to emerge piecemeal from the report over the next few months.

The thrust of Beijing's rebuttals is expected to be that the congressional report was politically motivated by a minority of congressmen who have always harboured anti-China sentiments.

Christopher Cox, chairman of the special committee which compiled the report, has "had an axe to grind" against Beijing for many years, a Chinese official said.

Nevertheless, the report has the potential to become a powerful source of mistrust in a US-China relationship which has chilled somewhat since the successful summer summit between President Bill Clinton and Jiang Zemin, his Chinese counterpart, in Beijing.

Other areas of friction include Washington's criticisms over lengthy jail sentences given to Chinese dissidents last month and a trade surplus expected to reach $60bn in China's favour last year.

Yesterday, however, it appeared that some of the sting had gone out of the acrimony on human rights. The two sides are set to reconvene, after a five-year gap, a bilateral dialogue on human rights on January 11 and 12 in Washington.

Hong Kong tightens up on share purchase loans

By Louise Lucas in Hong Kong

Hong Kong yesterday announced tough proposals to bring companies lending money for share purchases within its regulatory reach.

The proposals, which require margin finance providers to have a minimum paid-up capital of HK$10m (US$1.3m) and to maintain liquid capital of 5 per cent of their total liabilities, or HK$3m if that is higher, are expected to go before the Legislative Council, or parliament, early this year.

The proposed new laws follow the collapse of several securities brokerages last year. At least two, including CA Pacific Securities, which folded in January last year, were dragged down by over-extensive margin financing which soured when the market began falling.

The Securities and Futures Commission (SFC), the regulatory watchdog which drew up the proposals, estimates that in mid-1997 half of retail trading might have been accounted for by margin finance. That has since fallen to under 20 per cent.

Margin finance is an important business line for many brokerages and stand-alone companies. Some 231 stock exchange members offer the service; of these, 94 do so through associated money lenders.

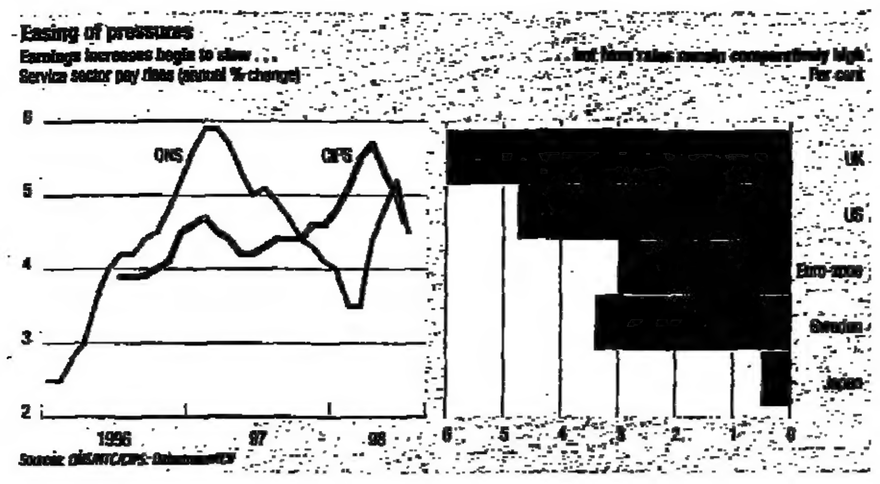
Andrew Procter, SFC executive director for intermediaries and investment products, said he expected "almost all" the latter to move their money lending operations back into the securities company now that the incentives to remain separate – ie, no capital or asset backing requirements – would be scrapped.

He expects "probably a good deal less than 50" will end up applying for the new licences. The proposed law creates a more consistent playing field, with the same rules applying to margin financiers regardless of whether they are part of a securities company or stand-alone operations.

Earlier, the government told legislators it had sought to strike an even balance between the need for greater investor protection and the companies' need to remain viable. Mr Procter said that margin finance companies had sought to increase their capital last year, and predicted few would be forced out of business by the new requirements.

BANK OF ENGLAND

Interest rates cut again as the economy slows further



By Richard Adams, Economics Staff

Signs of a "continuing slowdown" in the UK economy yesterday led the Bank of England, the central bank, to cut official interest rates for the fourth successive month.

The Bank's monetary policy committee cited a turning point in the labour market and the risks of further damage from the international economy as reasons to trim rates by a quarter of one percentage point.

Short-term interest rates have now fallen from 7.50 per cent in October – when the committee cut rates for the first time – to 6 per cent, the level the Labour government inherited on taking office in May 1997.

Tony Blair, the prime minister, said during a visit to South Africa that the rate cut was "good news" for the economy. But Malcolm Bruce, Treasury spokesman for the opposition Liberal Democrats, called on the government and the Bank to work together to push rates down to the European Central Bank's 3 per cent.

The Bank's of England's decision surprised the markets, where many analysts expected the Bank to wait for economic data due this month.

Ciarán Barr, a senior UK economist at Deutsche Bank in London, said: "We feel there is more to come. January's data is expected to be on the soft side, with the killer statistic being the first fall in gross domestic product since the second quarter of 1992."

The Bank said domestic data and survey evidence had shown a continuing slowdown in the UK economy since December. "The labour market remains tight, but it seems to have reached a turning point. Evidence from wage settlement and the Bank's regional agents suggests an easing of upward pressures on growth in pay," it said.

Risks from the international environment also "remain clearly on the downside". The Bank said it was able to cut rates in order to keep inflation on track to meet the government's 2.5 per cent target. Kate Barker, chief economic adviser for the Confederation of British Industry, the employers' lobby, said further cuts would be needed to ward off outright recession. "With continued weak global trends restraining prices in many sectors, inflation pressure is minimal," she said.

But the CBI did have glad tidings for retailers: sales volumes in December appeared to have picked up, defying some predictions. The CBI's distributive trades survey last month found 41 per cent of retailers reporting increased sales compared with last year, while 37 per cent said sales were lower.

Alastair Eperon, of the CBI, said growth was expected to continue moderately. "The indication that the underlying sales trend remains flat supports the case for interest rates to be reduced further."

Comment, Page 23

Biggest commercial lobbies urge further reductions

The cut in interest rates was not enough to satisfy analysts and the business community, **Richard Adams writes.** Most observers are expecting the central bank to reduce short-term interest rates to 5 per cent or lower over the course of this year, bringing UK rates closer to those within Europe's single currency zone.

Ian Peters, director-general of the British Chambers of Commerce, representing 110,000 companies in all sectors, said businesses would applaud the decision. "However, the Bank must remain firm in its resolve and over the coming months continue to move towards a more realistic and sustainable level of interest rates – in our view a level of 5 per cent or lower by the summer," he said.

How low the Bank is prepared to go remains an open question. In recent minutes, its monetary policy committee discussed setting interest rates at a neutral level "providing neither stimulus nor restraint" to the economy. Members are divided over the utility of a "neutral" interest rate but most economists think the current level of 6 per cent is well above it.

Analysts fear euro will hit company costs

By Kevin Brown, Industry Editor

Most equity analysts think the introduction of the euro in the first wave of 11 European Union countries will impose heavy costs on UK companies and damage profit margins in some industries, according to a MORI survey for Deloitte Consulting.

The survey also suggests that markets think many companies have failed to communicate their view of the impact of the single currency on competitiveness and profitability, and their plans for responding to increased European competition.

However, MORI found that analysts were generally positive about the medium to long-term impact of the euro, citing economic stability, larger markets and reduced currency risks.

"Analysts are clear that the benefits of being inside the single currency would be substantial, but they are saying companies have not resolved or do not know how to resolve a number of strategic, information technology and organisational issues," said Hans Christian Iversen, a Deloitte Consulting partner.

"A lot of them have a strategy, but they don't have an operational plan to back it up. They have not prepared detailed operational plans."

The survey adds to the weight of business opinion, which is broadly favourable to the euro. The Confederation of British Industry, the main employers' lobby, has called on the government to set a target date for UK membership.

However, many businesses remain opposed, as does the Institute of Directors.

The survey showed scepticism about the short-term impact of the new currency in the UK. More than 80 per cent of analysts forecast substantial costs to companies, mostly in changing IT, sales and marketing systems.

More than 75 per cent said profit margins would be damaged in some industries, mainly because of the impact of price transparency. The retail, financial services and manufacturing sectors were thought to be most at risk. Only 37 per cent of analysts said they thought the euro would lead to greater choice for consumers, although 54 per cent thought it would make goods cheaper.

The survey suggests that companies' poor communications may already be harming their market ratings because analysts are already factoring in the implications.

Nearly 65 per cent said the euro would have a major influence on competitiveness and profitability (53 per cent) in their sectors. And 74 per cent said that the euro would become more important in assessing companies over the next three years.

Euro prices, Page 25

LG sale may mean doom for $2bn chip factory

By Juliette Jowit in Cardiff

The future of one of the UK's biggest semiconductor plants was in doubt last night following the proposed sale of LG Semicon, its Korean parent company.

Inward investment experts warned that the £1.4bn ($2.4bn, €2bn) plant in south Wales, which has already been put on hold because of the Asian financial crisis and the worldwide drop in microchip prices, could be abandoned if bought by Hyundai, LG's Korean rival. LG has so far invested more than £100m in the factory.

There would also be anger locally about a reported £30m of UK government aid spent on building the factory, and about money spent on training staff. Fears for the Newport factory, which attracted the bulk of UK state aid worth £240m for LG's joint electronic and semiconductor project, have been refuelled by LG's offer to sell its Semicon arm to Hyundai for £2.5bn.

The announcement follows months of wrangling after LG rejected pressure from the government of South Korea to merge with Hyundai, giving its rival a 70 per cent controlling stake.

Some observers fear that if Hyundai buys LG Semicon it might close the south Wales plant in favour of its own £2.4bn project in Scotland, mothballed last summer after a £250m investment by the company.

Professor Brian Morgan, formerly chief economist with the Welsh Development Agency in 1996 when it won the LG projects, said the south Wales plant was further advanced in construction, technology and training, but further grants might persuade Hyundai to favour Scotland. "The [UK government's] Department of Trade and Industry and the European Commission should step in now and say 'no more grant aid'," he said.

Yesterday, the WDA said it was "vigorously" behind the plant, but hinted other options were also being considered. "There is an extremely strong case – because of the quality of the building and its strategic location – for bringing the plant into operation either as a semiconductor factory or for a whole range of other high technology manufacturing uses," it said.

Calls for UK government aid to help sell the factory and start production were dismissed as a "waste of money" because of the worldwide semiconductor recession.

Glenn Massey, head of inward investment at PwC, the professional services firm, said it was unlikely the very indebted Hyundai would be able to raise £2.5bn to buy LG. The south Wales factory would remain on hold for at least 12 months until the chip market recovered, he said.

NEWS DIGEST

CAR SALES

Manufacturers expect market to decline sharply

The car market is expected to decline sharply this year after registrations last year reached 2.25m, just short of the record of 2.3m in 1988. The Society of Motor Manufacturers and Traders said 200,000 fewer cars were expected to be sold this year – 8.8 per cent less than in 1998 – because the industry was entering a period of uncertainty. The introduction of the biannual number plate change, a slowing economy and mounting concern over the high level of UK car prices meant the industry faced "uncharted waters", industry executives said. Roger King, SMMT acting chief executive, said the uncertainty would be compounded by the introduction of the euro in 11 European Union states and the greater transparency it would bring to real car prices across Europe by the end of the year. The result would be increased pressure for convergence of car prices. **John Griffiths, London**

Detroit troubles, Page 17
Volvo developments, Pages 18 and 20

MINISTRY OF DEFENCE

Vehicles to be privatised

Non-military vehicles operated in the UK by the Ministry of Defence are to be owned and maintained by private companies under contracts worth £400m ($672m, €560m) to be awarded this year. The plan underlines the growing use of private finance by the department, which has awarded similar contracts for Royal Air Force vehicles in Britain and for vehicles used by UK forces in Germany. An MoD official said yesterday it had invited five groups to tender for the right to supply 8,300 vehicles, including staff cars, vans, buses, trucks and motorcycles.

Those invited are Forward Trust; GE Capital with TLS; Lex Service; Venson; and a consortium including Arriva, PHH and Ryder. **Alexander Nicoll, London**

LEGAL PROFESSION

Insurance rules 'breach EU law'

The Law Society's refusal to allow solicitors to buy professional indemnity insurance cover on the open market contravenes European competition laws, according to an opinion by a leading legal adviser. Solicitors are lawyers with limited powers of advocacy in higher courts. The opinion by Michael Beloff was commissioned by the November group of London law firms that is challenging the society's refusal to allow them to opt out of the profession's compulsory mutual scheme. The society voted in October to continue to provide professional indemnity insurance primarily through a mutual scheme. The vote followed a review of the profession's insurance arrangements after the discovery of a £450m ($756m, €630m) deficit in the mutual scheme, managed and administered by the Solicitors' Indemnity Fund. In Mr Beloff's opinion, SIF infringes European competition law because its rules effectively prevent, distort and restrict competition in the European Union. **Robert Rice, London**

CONSERVATIVE PARTY

Attempts to woo women fail

Attempts by the opposition Conservative party to attract more women have been a resounding failure, according to research. The party, which has just 14 women MPs, has set itself a secret target of 250 women candidates for the House of Commons at the next national election. But at the last training weekend for aspiring MPs only 10 per cent of those attending were women – roughly the same proportion as stood for parliament at the last election. Margaret Thatcher, the country's first woman prime minister, is a Conservative. The party's efforts to woo young women into the party has also made little impact. A survey of 15,000 party members by the Bow Group, a Conservative think-tank, has found that barely 3 per cent of party members are women aged under 45.

William Hague, the party leader, is keen to increase the number of female candidates and proposed that 25 per cent of those interviewed in the first round of the selection process should be women. But the plan was rejected last year by a party traditionally opposed to positive discrimination. **George Parker, London**

IRA hints at possibility of return to violence

By John Murray Brown, Dublin

The Irish Republican Army referred yesterday to a possible resumption of violence if British ministers "again succumb to the unionist veto". It was the first time it has raised the prospect of such action since the Northern Ireland peace agreement of April last year.

"Attempts to resurrect old preconditions which collapsed a previous opportunity to secure lasting settlement are designed to block progress rather than expedite it," the IRA said. That was a reference to the demands from pro-British unionists for arms "decommissioning" that led to the end of the first IRA ceasefire in 1996. Yesterday's IRA statement appeared in the latest edition of the republican journal An Phoblacht – Republican News.

Unionists yesterday interpreted the statement as an explicit threat of renewed violence, despite earlier comments from the republican leadership that "the war" was over. Reaction in the Republic of Ireland was more cautious. A senior government official said the IRA had not ruled out decommissioning, as it had in previous statements.

David Trimble – leader of the Ulster Unionists, the biggest pro-British party in the region, and Northern Ireland's first minister – insists on some movement by the IRA to dismantle its arsenal before Sinn Féin, its political wing, can take seats in a power-sharing executive to run Northern Ireland.

Unionists warned that the IRA's comments could harden UUP opposition to the proposed accommodation with Sinn Féin that is envisaged in the peace agreement.

John Taylor, UUP deputy leader, said the party might seek to "renegotiate" the accord if the IRA refused to decommission. "This, regrettably, may have to occur in the next couple of months if Sinn Féin has still failed to honour its obligations," he said. British and Irish government officials said there is no such provision in the agreement.

English in the dark as regional government dawns in the UK

Scotland, Wales and N Ireland are to have it but the other element of the UK is confused, say **Brian Groom, Andrew Parker** and **Chris Tighe**

Populations (m)	
UK	56.5
England	47.1
Scotland	5.0
Wales	2.8
N Ireland	1.6

Source: Official census 1991

It is often argued that regional government for Scotland, Wales and Northern Ireland will provoke an identity crisis in England. But it would be nothing compared with the one that has raged for the past 50 years.

Since the second world war the English have coped with the loss of the British Empire – the world's most powerful, run mainly by the English – as well as traumatic change in social attitudes. So it is perhaps unsurprising that the English should be so little concerned by regional government elsewhere in the UK.

There has been little agitation from the English. There is no movement for English separatism to compare with those that demand independence for Scotland and Wales.

That also explains why the government has moved so cautiously on regional assemblies for England and has done so little to explain its reforms.

"The English could be forgiven for thinking that devolution [regional government] is some special deal for the people of Scotland, Wales and Northern Ireland because no one has troubled to tell them otherwise," argues Robert Hazell, professor of government at University College London and director of the Constitution Unit.

The difficulty lies in finding a convincing answer to the what has become known as "the West Lothian question", named after a a district between Glasgow and Edinburgh, Scotland's two biggest cities. It asks why MPs at the UK parliament at Westminster who represent Scottish districts should vote on legislation affecting England when English MPs will be barred – after creation of the Scottish parliament this year – from voting on similar laws for Scotland.

Before Tony Blair became leader of the governing Labour party – and while it was in opposition – the party appeared to answer the question by proposing directly-elected assemblies for all English regions, to balance the Scottish and Welsh bodies.

The party's manifesto for the 1997 national elections promised referendums in Scotland and Wales about the establishment of local assemblies. It added that only "in time" would there be legislation to facilitate similar votes in English regions.

After the narrow endorsement of the Welsh assembly in the September 1997 referendum, John Prescott, deputy prime minister, said there would be no moves towards elected assemblies in England until after the next national elections.

Separately, Mr Blair showed keen support for a constitutional innovation that could sideline the case for assemblies: directly-elected mayors for English cities. Legislation may reach the statute book next year.

With Labour party policy seemingly confused, the Conservatives offered the idea of an English parliament.

Government officials insist there is no policy confusion, saying Mr Blair does not see elected mayors as a substitute for assemblies. He believes public appetite for assemblies will develop, if at all, only after the Scottish parliament and Welsh assembly are in action.

Frustration is greatest in north-east England, where demand for an assembly is most vocal.

"We have a government structure in this country that Stalin would be proud of," says John McCormack, a councillor in Northumberland, an English county next to the Scottish border.

A North East Constitutional Convention has been formed, involving trades unions and the business, political, voluntary and cultural sectors. It is similar to a body that created the conditions for regional government in Scotland – and the Scottish experience may provide the spur. Mr McCormack says: "They've taken 10 steps forward; we've only taken three or four. We don't want Scotland to slow down, we want to catch up."

This article concludes a series about regional government.

Ministers plan biggest spending review since 1976

By Andrew Parker, Political Correspondent

The government is expected to sanction a review of public spending needs across the UK early in the next century in response to its regional government programme.

Ministers admit that the means of allocating money to the forthcoming Scottish parliament and Welsh assembly has become a "moving picture". A new device will have to be found if the programme is extended to the English regions

The issue is delicate because of May's elections to the Welsh and Scottish forums. Any suggestion that Scotland, in particular, could lose money would be a gift to the resurgent Scottish National party, which campaigns for an independent Scotland.

A mechanism called the Barnett formula currently gives Scotland and Wales a percentage share of any annual increases in spending agreed by the Treasury with government departments covering England. The formula, for example, ensured that the Scottish and Welsh offices received generous settlements for education and health from the government's last spending review.

Ministers are likely to authorise the first comprehensive assessment of public needs since 1976 to try to maintain a public consensus in favour of higher spending in certain parts of the UK.

Some Labour MPs representing English districts believe a new assessment would cut Scotland's £14bn ($23.5bn, €19.6bn) grant from the Treasury because the country's gross domestic product per head has significantly improved in the past 20 years. Government statistics for 1995-96, the most recent available, show Scottish Office spending per head was £2,670 compared with £2,020 in England, a margin of 32 per cent.

RECRUITMENT

RICHARD DONKIN

The quest for peace

Employees are drained by the demands of work, technology and consumerism

The column has just had two weeks off, suspended partly because there is little recruitment going on over Christmas and partly because I had nothing to say. But the business of filling newspapers seems never-ending, such is the pressure to publish in even the slackest of news periods. So people with better things to do end up reading what they do not need to know.

Work is sometimes like this. People find themselves making things that people do not need or doing things that are of no great service to anyone; and technology is constantly improving, enabling people to perform these unnecessary tasks faster and more efficiently than before.

This obsession with bigger, better, newer is highlighted in a gem of a book called *Drained* by Christoph Arnold to be published in the spring. It captures a mood of disillusionment among many people struggling to find fulfilment. Mr Arnold quotes from an article in Time magazine about a young American couple who moved away from their suburb in Ohio because the woman was fed up with neighbours who "spend all their time working their backs off so they can fill their big, empty houses with expensive crap".

Finding a more meaningful way of life had not proved easy and, after a brief experiment with small town living, the couple moved to the New England island of Nantucket to set up a bed and breakfast.

Whether they lived happily ever after I cannot tell. What I do know is that Nantucket is a community so perfect and twee that it makes the Stepford Wives look like radical feminists. As Mr Arnold points out, attempts to rid our lives of clutter often create space for new clutter. A change of scenery is not in itself enough to escape the frenzied pace demanded by modern culture.

Mr Arnold is right to question the way we live. He is right to suggest that personal computers, fax machines, mobile phones and e-mails may have revolutionised the way we live and work without creating either personal freedom or any sense of peace.

"When upgrades on everything from software packages to cars keep us on the constant run, when we are always struggling to keep up with the Joneses (even against our better judgment), we ought to ask ourselves what we have saved, and whether our lives are any more peaceful," he writes.

In what is presented as a search for peace in people's lives, one point stands out among others: the complexity of life today has "robbed us of peace and resulted in a quiet but widespread epidemic of nervousness, insecurity and confusion".

His book does not deliver any quick fixes – not the sort, at any rate, that could create a new line in consultancy. One idea, for example, is to introduce more silence into our lives but this, he recognises, would have little commercial appeal. He quotes the writer Max Picard, pointing out that silence "stands outside the world of profit and utility. It cannot be exploited; you cannot get anything out of it. It is 'unproductive'; therefore it is regarded as useless. Yet there is more help and healing in silence than in all the useful things."

It may, however, be too late to avoid commercialism in the quest for inner peace. A feature in the latest issue of People Management magazine points out that spirituality in various forms is bursting out across the corporate sector and all manner of "experts" and consultants are beginning to pedal their workplace solutions.

These include the very welcome involvement of the church. Douai Abbey in Berkshire opened its doors in October for the first time to stressed-out workers and executives for a weekend of meditation and spirituality.

But for every genuine attempt to bring meaning into employment, companies can expect to find the usual vacuous contributions from those who recognise a management fad when they see one. This is a pity. There is a real problem in the workplace created by technology-inspired froth and rampant consumerism.

As Mr Arnold points out, people have become drained. There is an urgent need for a return to old-fashioned values such as trust and service to others. Both of these qualities, he writes, require a rejection of selfishness. But in a working environment where people have been encouraged to look out for themselves it is not going to be easy.

Drained is to be published by The Plough Publishing House, Robertsbridge, East Sussex TN32 5DR

Living abroad: comparing the cost

Cost (£) of keeping up home pattern of family spending on consumer goods and services

Exchange rate: December 1998. Gross salary in home country based on middle management position

Home country	Gross salary in home country	UK	US	Switzerland	Neth	Germany	France	Australia	Hong Kong	Singapore	South Africa
British	51,021	13,333	14,196	21,467	14,468	16,375	16,495	11,757	17,828	14,738	7,740
American	60,044	19,241	13,246	24,801	18,202	19,869	20,301	13,107	21,193	16,178	9,362
Swiss	80,583	18,652	17,118	21,576	16,920	18,979	19,029	14,117	22,297	17,990	9,447
Dutchman	49,260	11,864	11,419	16,579	10,237	12,688	12,840	9,277	14,093	11,737	8,185
German	64,232	14,030	12,997	18,808	12,994	13,217	14,855	10,682	16,946	13,952	7,450
Frenchman	51,748	15,850	14,238	21,451	14,750	16,359	14,922	11,757	18,538	15,110	7,872
Australian	35,470	14,434	12,125	18,412	13,181	14,356	14,556	9,442	16,158	13,406	6,900
Hong Kong	65,546	21,727	20,650	31,534	20,716	23,366	23,404	18,326	19,969	18,778	10,302
Singaporean	50,451	21,904	19,581	30,412	20,928	23,406	23,207	15,759	23,503	18,058	9,985
South African	23,170	11,762	10,409	15,814	11,014	12,253	12,354	8,693	13,599	10,978	5,215

Source: ECA

Stay or go?

It is always difficult working out whether that foreign posting is going to be a good deal financially. Data collected by ECA International, a human resources consultancy, aims to clarify matters (see chart).

The table outlines how much it costs expatriates to maintain their home country spending on consumer goods. A British national, for example, earns £51,021 ($85,700) in the UK and spends £13,333 on goods and services. The same level of consumption would cost £14,196 in the US. The UK's average cost of living, says ECA, is now among the highest in the world, ahead of France and Germany.

Details: Emily Tuite on +44 171 351 5000.

richard.donkin@ft.com

WORKING BRIEFS

Fuller disclosure has increased directors' pay, say chairmen

A large number of UK company chairmen believe that the greater disclosure of directors' pay in the annual reports of UK public companies recommended in the Greenbury report has led to a "ratcheting up" of directors' pay, according to the winter edition of London Business School's Business Strategy Review.

The report, *Corporate Governance and Directors' Remuneration: Views from the Top* – by Robert Clarke and Martin Conyon from Warwick Business School and Simon Peck of City University Business School – surveyed 342 chairmen of UK public companies. Nearly half thought directors' pay had gone up more than it would have done without disclosure, which has allowed easier comparisons between companies. About a quarter disagreed and the rest were neutral.

Simon Peck: +44 171 477 8000

Fewer searches

Demand for executives across Europe fell in the first nine months of 1998, according to the European arm of the Association of Executive Search Consultants. While the association's US arm reported that the number of searches booked among its members held steady year on year, the European searches in the third quarter fell by 5 per cent year on year.

Although demand remained stable in the UK and Germany, it fell markedly in France, the Netherlands, Austria and southern Europe. The biggest falls were in central and eastern Europe: a 75 per cent decrease year on year in the third quarter.

Details: 00 322 774 9612

Euro mobility

Nearly two-thirds of 136 companies canvassed believe that a common European currency will spur more cross-border movement of employees, according to Organization Resources Counselors.

But there seemed no hurry among the companies surveyed to adjust their expatriate pay policies before the introduction of euro notes in January 2002. The report advises companies to examine their policies so that employees are aware of the implications of the currency changes.

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The qualified candidate will also be responsible for developing consulting business with European utilities and industries that will produce profitable consulting projects and enhance opportunities for the Company to successfully develop independent power projects. The candidate will work with business sector managers, technical and financial specialties, within the Southern electric system to develop a high quality proposal and presentation that will lead to finalizing a consulting contract. Working with the business sector manager to staff the project with qualified, motivated personnel and follow the progress of the contract is also a job responsibility.

In addition, the candidate will coordinate with SEI's power project development managers so that the business objectives of the Consulting Services group are in-sync with SEI's power project development goals. The candidate will also develop strategic alliances with other quality companies having similar values and complementary strengths to the Southern electric system as well as government agencies, such as World Bank, USAID, etc. that can lead to consulting opportunities. Other duties as assigned.

BS degree in Engineering or Business Administration, or equivalent experience is required. Relevant experience in electric utility and/or power plant operations is also required. Candidate must exhibit a broad range of knowledge relative to utility operations. Other qualifications include: demonstrated communication and negotiation skills, good business judgment, knowledge and understanding of business contract law and excellent management consensus building skills. Prior marketing or client management experience is desirable. Minimum 10 years of utility experience required in one or more of the following areas: power plant operation/maintenance, engineering, planning, (generation/transmission) and training. Foreign language skills are a plus. Candidate will spend at least 60% of their time in Europe. Salary commensurate with experience.

For consideration, please forward cover letter and resume to:
SEI, Attn: Kevin McConnell, International Assignment Coordinator, 900 Ashwood Parkway, Suite 500, Atlanta, GA 30338. Fax: 770-821-6938 or 888-821-6938.
e-mail: kevin.c.mcconnell@scnet.com

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SOUTHERN COMPANY *Energy to Serve Your World™*

AUDIT SPECIALIST

Office of Audit and Performance Review
New York City

The United Nations Development Programme (UNDP) is the United Nations' largest provider of grant funding for development, as well as the main body for coordinating UN development assistance. We have a position available at our New York City headquarters for an Audit Specialist in our Office of Audit and Performance Review (OAPR). This position is responsible for performing comprehensive management audits of various organizational units/functions.

The Audit Specialist will supervise one to four team members in conducting audit assignments as per internal policy guidelines; producing audit reports; monitoring and following up on the status of recommendations; and facilitating self-assessment workshops. Other responsibilities include performing advisory assignments; conducting special investigations, supporting OAPR's regional service centres; and overseeing contracted audits.

A high level of self-initiative and a commitment to delivering timely and courteous service are essential. The ability to analyze complex problems and focus on critical details are mandatory. Exceptional leadership skills and the ability to build teams are very important.

Qualifications:

- Master's degree in auditing, business administration, public administration, finance or commerce; or a CP/CPA
- Eight or more years of experience, of which at least three are in an audit capacity
- Superior English skills (working knowledge of Spanish and/or French is an asset)
- Familiarity with MS Office
- Experience in auditing computerized information systems

UNDP offers a competitive salary and benefits package. Interested candidates should forward a detailed curriculum vitae and salary history, no later than 31 January 1999 to: **Diane Kepler, United Nations Development Programme, 304 East 45th Street, New York, NY 10017; E-mail: diane.kepler@undp.org.** Qualified women are strongly encouraged to apply. We regret that we will only be able to respond to those applications in which UNDP has further interest.

undp

UNITED NATIONS DEVELOPMENT PROGRAMME

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tyco *Unleashing the Power Within*

EUROPEAN TAX MANAGER

Tyco International Limited., a US $17 billion diversified manufacturing and service company with over 80,000 employees worldwide, is the world's largest manufacturer and installer of fire and safety systems and provider of electronic security services and has strong leadership positions in disposable medical products, packaging materials, flow control products, electrical and electronic components and underwater telecommunications systems.

Our companies, such as ADT, US Surgical, Kendall Health Products and Total Walther are household names in their fields. With projected expansion throughout Europe and the rest of the world, our worldwide growth should reach over $23 billion in turnover in 1999 alone.

To aid in this period of expansion and for the future, we are seeking a European Tax Manager to coordinate our international tax strategy and corporate structuring activities throughout Europe and the Middle East.

This is a key position, with European wide responsibilities and scope, reporting to the Director of International Tax and working closely with the European Legal and Finance Departments.

The successful candidate will have a minimum of five years of international tax experience, with a multinational or an international accounting or law firm, preferably as a tax manager or tax counsel. A CPA degree or an advanced legal degree in international taxation is a prerequisite, as is complete fluency in English, French and preferably at least one other European language. Organizational and computer skills are also a must. The successful candidate will be a self-starter, enthusiastic and able to take a leadership position in a dynamic and changing business environment.

Tyco offers an outstanding professional challenge and competitive compensation commensurate with experience. If this description fits you, please reply in confidence by mail or by fax with a current c.v., salary history and an analytical English writing sample (no more than 5 pages) to:

Box A6229
Financial Times
One Southwark Bridge
London SE1 9HL

Closing date for applications is February 15, 1999.

To learn more about Tyco International Ltd., visit our website at http://www.tycoint.com

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EMERGING MARKETS CENTRAL EUROPE

International investment banking and consulting firm seeks capital markets, stock exchange, and private pension professionals for assignments in Central Europe. Candidates should have ten plus years experience. International experience desirable. Please fax CV's to 212-533-7449.

CHASE

Corporate Actions Manager

Improve your lifestyle and your career

• Contribute to the Market Leader

Enhance your lifestyle and career by joining The Chase Manhattan Bank, market leader in Global Custody. Based in Bournemouth, this major corporate works alongside other financial institutions taking full advantage of an excellent location and providing a tremendous working environment. A combination of acquisition and organic growth has resulted in the need for an additional experienced person willing to undertake an integral role within the dynamic, highly visible Asset Services Division.

Chase are currently managing assets worth US$5.2 trillion, across 80+ markets. Your responsibility will be to manage a department ensuring the high expectations of clients are met at all times. Aware of the strategic goals and objectives of the business, your role will concentrate on part of the processing function, thereby increasing timeliness and accuracy. Effective staff management and development is an additional prerequisite of this role, coupled with the ability to work with and influence colleagues and senior management.

• Based in Bournemouth on the South Coast

You will offer a unique blend of technical and management skills within the Corporate Actions arena, demonstrating the ability to evaluate and streamline systems and processes where necessary. Additionally, you will have experience in directing and navigating a results-oriented team.

With the Global Custody market being serviced by fewer providers, this is a great opportunity to join The Chase Manhattan Bank which offers a strong client base, state-of-the-art technology and R&D budgets to ensure future growth. Coupled with living in an attractive location and earning a competitive package, you will join approximately 2,500 colleagues benefiting from great facilities, including a multi sports leisure complex.

For further information in the strictest confidence, contact Dev Majithia or Deborah Lyons on 0171 240 1040 or send your CV, quoting reference 3019/74, to Morgan & Banks PLC, Brettenham House, Lancaster Place, London WC2E 7EN. Fax 0171 240 1052.

email: info@morganbanks.co.uk

www.morganbanks.com.au

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ACCOUNTANCY APPOINTMENTS

ASSISTANT VICE PRESIDENT FINANCE - EUROPEAN OPERATIONS MULTINATIONAL MARKETING COMMUNICATIONS

CENTRAL LONDON — **c £70,000 + BONUS**

With an annual turnover approaching $2 billion, this global agency network operates in over 50 countries, spans 4 continents, and can comfortably be described as one of the world's most successful marketing communications companies, having doubled in size over the last decade.

As a result of a senior level relocation, the company is seeking to recruit an Assistant Vice President Finance, to take responsibility for all aspects of finance, personnel and office administration for the London based headquarters of European Operations.

The ideal candidate will therefore have a global outlook, having experience of and sensitivity to differing cultures.

Other key aspects of this high profile role will include:

- collecting and reviewing financial reports of the European and Middle Eastern offices
- international client profitability analyses
- involvement in strategic acquisitions, from evaluation of potential candidates to group integration, via the process of negotiation and completion of transactions
- consultation with lawyers, auditors, tax and other advisors as needed

The role will involve close liaison with country managers to shape strategy and operations, including analysis of industry trends, business risks and opportunities, and assistance in the recruitment of finance managers and directors.

The agency remains hungry and eager to grow, and the ideal candidate will share these attributes. The successful applicant will thrive in an entrepreneurial environment, where a pragmatic, proactive approach to problem solving is encouraged.

Interested applicants should send their Curriculum Vitae to Matt Foster at Robert Walters Associates, 10 Bedford Street, London WC2E 9HE Tel: 0171 915 8728. Fax: 0171 915 8714.
Email: matthew.foster@robertwalters.com
Web: http://www.robertwalters.com
You may also apply via http://taps.com/Robert_Walters quoting reference RW253

ROBERT WALTERS ASSOCIATES

LONDON THAMES VALLEY AMSTERDAM BRUSSELS FRANKFURT NEW YORK HONG KONG SINGAPORE SYDNEY MELBOURNE BRISBANE WELLINGTON AUCKLAND JOHANNESBURG

Six figure salary + benefits & options — POWERGEN — *Coventry*

UK Finance Director

Following the recent acquisition of EME a new role has been created to lead the finance function of the merged UK businesses, encompassing generation, supply, distribution and retail operations. With a turnover of £3.5 billion, operating profit of £700 million and 7,000 staff, the UK division is the core business within this FTSE 50 corporate. Demanding remit supporting an executive director focusing on raising efficiency and performance throughout the operation.

THE ROLE

- Reporting to the MD of UK operations and functionally to the Group FD, with full responsibility for financial management and control, budgeting, forecasting, business planning and the capital appraisal process.
- Developing further a lean, high quality UK group finance team and providing leadership and guidance to the devolved UK subsidiary finance teams.
- Raising the quality of the financial analysis, reporting and budgetary processes and playing a key role supporting the UK management team in realising market opportunities and achieving substantial efficiencies across the merged operation.

THE QUALIFICATIONS

- Experienced and mature graduate Accountant with a blue-chip financial pedigree and at least ten years' experience acting at a senior level in a substantial, complex corporate.
- Robust with superior leadership and communication skills. Team player capable of driving change in a proactive and resource-efficient manner.
- Strong commercial focus with credibility at plc board level. Able and willing to progress further in a large, dynamic, international organisation.

PowerGen is an Equal Opportunities Employer.

Tel: 0171 298 3333
Fax: 0171 298 3388
Email: cwaldron@spencerstuart.com

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Spencer Stuart

Please reply with full details to:
Selector Europe, Ref. TRB/25951-11/19,
16 Connaught Place,
London W2 2ED

BARCLAYCARD

Six figure package + banking benefits — *Northampton*

Finance Director

Barclaycard is the largest VISA credit card issuer in Europe with over 9 million cards issued. It has one of the most powerful consumer brands and franchises in the UK and growing businesses in France and Germany. With a turnover of c. £20 billion, it contributes significantly to the Barclays group profit whilst operating in a highly competitive sector. Barclaycard's strategy includes significant marketing and technology initiatives plus new international market developments. Highly commercial role as part of a young team in a position which falls vacant because of the promotion of the current incumbent.

THE ROLE

- Responsible to the Managing Director for financial planning, reporting and control in Barclaycard.
- Drive improved performance through effective budgetary control. Provide leadership to the business re-engineering programme. Lead the development of business and financial strategy aimed at maximising shareholder value.
- Lead and develop the finance team of around 100, building finance skills across the company and re-engineering finance processes around new, state-of-the-art finance systems.

THE QUALIFICATIONS

- Graduate accountant with international operating company experience in a blue-chip financial or consumer business. Broad-based financial skills including both financial and management accounting in a marketing-led environment.
- Mature and confident leader with first-class interpersonal skills capable of operating in a fast-paced business. Strong IT and technology literacy.
- Commercially oriented and flexible. Able to add real value to senior management team deliberations using financial information to guide strategy and operational initiatives. Able to lead, motivate and develop an enthusiastic team.

Tel: 0171 298 3333
Fax: 0171 298 3399
Email: mwade@spencerstuart.com

Selector Europe
Spencer Stuart

Please reply with full details to:
Selector Europe, Ref. DHJ/28378-2/19,
16 Connaught Place,
London W2 2ED

Group Finance Director

Venture capital backed, highly successful and acquisitive group

Cheshire — **Six Figure Salary + Bonus + Equity**

Our client is a highly successful and rapidly growing venture capital backed group, which is on track to reach a turnover target of £250m within three years, via a combination of organic and acquisitive growth.

This highly profitable and entrepreneurial group comprises a number of independently managed operating companies which share a common sector focus. All of these companies operate throughout the UK and in some cases have national branch networks. Their span of operations includes trading, manufacturing and installation.

The Group Finance Director will be highly commercial in outlook and in particular will take a proactive role in driving profits forward, through the implementation of revenue enhancing and cost reducing actions, at the operating level. Other key tasks in the role will include:

- the establishment of best practice reporting, analysis and operational processes within the finance, administration and logistics functions throughout the group;
- the management and strategic development of the group's IT function;
- close liaison with the group's professional advisors on a variety of financial matters, ranging from audit through to acquisitions.

The appointee will be a graduate qualified accountant with a proven track record of senior financial management at the £50m+ turnover, divisional or group level. The successful candidate will be a commercially focused individual who enjoys working in a dynamic and responsive organisation where lines of communication are short.

In order to attract a finance professional of the highest calibre, the remuneration package associated with this appointment will include: a six figure salary, a comprehensive bonus and benefits package, and an equity stake in the business.

Please send a full CV in confidence to GKR at the address below, quoting reference number 98998N on both letter and envelope, and including details of current remuneration.

GKR

Park House, 6 Killingbeck Drive,
Leeds LS14 6UF.
Tel: 0113 248 4848. Fax: 0113 248 4852.
E-mail: leeds@gkrgroup.com

Mars

Group Pensions Manager

M4 CORRIDOR / SALARY INDICATOR FROM £85,000

With units in some 60 countries, Mars, Incorporated is a global leader in each of its major markets - snack foods, main-meal foods, petcare products, drinks vending systems and automated payment systems.

With success dependent on the combined efforts of a talented workforce, the ongoing development of competitive pay, pensions and benefits policies continues to play a key part in attracting and retaining high-calibre individuals.

The European Treasury and Benefits Centre, based in Slough, includes within its responsibility the administration and control of the Mars benefits schemes in the UK. Reporting to the Centre's Director, the high-profile role of Group Pensions Manager for the UK will play a key part in the development of Mars' pensions and benefits strategies.

The role will be to ensure that all of Mars' UK Pensions and Benefits schemes meet the changing human resource needs of the business units in a cost-effective manner by providing them with appropriate advice. The role will also involve the management and administration of schemes, ensuring that the plans meet all statutory and regulatory requirements, and the provision of training, counselling and other services to the UK businesses.

You will need a good degree with a professional qualification, probably in the finance area, and around five years' post-qualification pensions experience gained with blue-chip, best-practice organisations. This experience will have included responsibility for, or exposure to, defined benefit pension schemes and other benefits. You must possess a thorough knowledge of the legal and regulatory framework for UK pension plans and other retirement/benefit provisions. Familiarity with both UK and US requirements for accounting for benefit costs and experience of defined contribution schemes would also be advantageous.

If you are interested, please telephone our appointed consultant, Stuart Adamson FCA, on 0113 245 1212, or forward your comprehensive cv in confidence, quoting ref: 7390, to Adamson & Partners Limited, 10 Lisbon Square, Leeds LS1 4LY. Fax: 0113 242 0802.
Email: stuartadamson@adamsons.com

Mars is committed to equal-opportunity employment practices.

Mars

PLC FINANCE DIRECTOR

BRANDED RETAIL, DISTRIBUTION AND CUSTOMER SERVICE BUSINESS

NORTH WEST — **FROM £100,000 + BONUS + BENEFITS**

- c.£600 million turnover UK Plc with 2,500 employees operating within a rapidly evolving consumer facing business sector. The Group has a track record of steady growth in recent years, both through organic development and acquisition.
- An outstanding opportunity for a commercially oriented finance director to make a major commercial and strategic input in order to drive the Group forward.
- As 'right-hand man' to the Chief Executive, he/she will have full responsibility for all aspects of financial management of the group and its operating businesses, providing authoritative financial leadership both internally and externally.
- Graduate, qualified accountant. Proven record of achievement in senior level finance roles in a Plc environment.
- Ideally with experience in retail, distribution or customer service sectors and familiar with working in a low margin, multi-site business environment with focus on cost control, branding and delivery of excellent service levels.
- Personal qualities will include first rate communication skills, energy, enthusiasm and commitment. He/she will have a hands-on approach with the ability to build strong working relationships throughout the Group.

Please apply in writing quoting reference 8022
with full career and salary details to
Mark Mullen, Whitehead Selection
11 Hill Street, London W1X 8BB
Tel: 0171 290 2000 Fax: 0171 290 2050
E-mail. mark.mullen@wmgroup.com
www.whiteheadselection.co.uk

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FINANCIAL CONTROLLER

EXCELLENT OPPORTUNITY IN GROUP TREASURY FUNCTION

HALIFAX — **SUBSTANTIAL PACKAGE**

- One of the UK's leading banks, the Halifax has assets of over £130 billion, a customer base of over 20 million and almost 900 branches.
- A key business sector of the Halifax, Group Treasury is expanding its activities to create a full service bank treasury and capital markets division. Group Treasury works on a dual site basis with front and middle office in London and operations and finance in Halifax.
- A key player in managing the Halifax based operation will be the Financial Controller. This newly created role reports to the Group Treasury Finance Director. Responsibilities include managing the team, overseeing the production of statutory, regulatory and periodic reporting, integrating acquisitions into the business and developing the budgetary function to meet business needs.
- A first class academic background and accountancy qualification will be combined with at least 5 years PQE. Extensive knowledge of FSA reporting requirements is essential as is a full understanding of the accounting and disclosure requirements of Treasury instruments. Familiarity with return on capital, ABM and other financial management techniques would be an advantage.
- The role demands a highly commercial and detail orientated approach, cultural sensitivity, drive and resilience. Candidates will also have excellent communication, interpersonal and people management skills and the ability to operate effectively at all levels within the Group.
- This is a high profile role in a successful and ambitious Group. Future career prospects are excellent for a finance professional with ambition and drive who can make a positive contribution to the organisation.

HALIFAX

Please apply in writing quoting reference 1797
with full career and salary details to:
Fiona Makowski, Whitehead Selection
11 Hill Street, London W1X 8BB
Tel: 0171 290 2054. Fax. 0171 290 2050
E-mail: fiona.makowski@wmgroup.com
www.whiteheadselection.co.uk

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IT Appointments

KPMG

IS Strategy Programme Manager

- City
- to £75,000 + car

Our client is one of the most prestigious organisations in the Lloyd's market. A recent merger has given them an unrivalled asset base for future expansion. IS is critical to their business and they now need to develop an appropriate strategy to help drive the business forward.

Reporting directly to the Head of IS, the Programme Manager will have responsibility for overseeing a complete evaluation of the information requirements of the newly formed group and its strategy. He or she will be responsible for managing large scale change management programmes which will include people, process and technology issues as well as supporting systems projects.

Suitable candidates will be of graduate calibre and have the strength of personality and inter-personal skills to persuade users of the benefits of change. With a minimum of five years experience within the financial services sector, he/she will have a proven track record in a structured environment, including at least one major change management programme. Experience of the insurance market, ideally including Lloyd's, is preferable but not a prerequisite.

Interested candidates should apply in writing with full career details including salary, and where possible a daytime telephone number quoting the reference PMS0612 to Gerard Moore, KPMG Selection & Search, 1-2 Dorset Rise, London EC4Y 8AE or e-mail him on gerard.moore@kpmg.co.uk

KPMG Selection & Search

Career Opportunities in Consulting for

Project Managers
Business Analysts
Technical Architects

IT BANKING

Our client is a well respected and established consultancy firm, delivering quality professional services and expertise to banks and financial institutions.

Their continued success has resulted in opportunities for Consultants and Junior Consultants to be part of, and contribute to, their growth strategy.

All positions require experience of one or more of the following:

- Treasury and Capital Markets
- Risk Management
- Middleware
- Back Office and Settlement Systems
- Derivatives and Fixed Income
- Financial Software Development.

You must have:

- At least 2 years' experience of IT banking
- Good interpersonal skills to develop client relationships
- The ability to plan and manage your own work
- A pragmatic approach to problem solving
- An all-round positive attitude
- A delivery oriented approach.

This Consultancy has a strong people culture and is fully committed to major investment in training and career development. Individual responsibility and achievement are recognised, encouraged and rewarded.

Please send your CV to Alan Summers, quoting reference FT0199A at S&H Consulting Limited, Lloyds Avenue House, 6 Lloyds Avenue, London EC3N 3AX. Tel: 0171 481 1171. email: SHConsult@aol.com

S&H Consulting Limited

RISK ANALYSTS QUANTITATIVE DEVELOPERS

GLOBAL INVESTMENT BANK

FIXED INCOME AND EQUITY DERIVATIVES

RISK MANAGEMENT — CITY

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An excellent science/mathematics background is required and should include a 1st or 2.1 honours degree from a top-tier university ideally with a high degree and preferably a minimum of six months financial experience. For both roles, hands-on computing experience is required including for example C, C++, VisualC++, Visual Basic, Excel etc. Enthusiasm will be a distinct advantage.

Remuneration packages are excellent and include a substantial bonus and benefits package.

In the strictest confidence, please send a full CV to Craig Millar at Millar Associates, 6 Sloane Street, Knightsbridge, London SW1X 9LE. Please quote reference no. FT0601. Tel: 0171 823 2222. Fax: 0171 823 2208. Email:millarassociates@sw1.telme.com

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CLIENT SERVICING - FIXED INCOME

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ALL LEVELS FROM 3 - 10 YEARS EXPERIENCE, SEVERAL POSITIONS AVAILABLE, SELF MOTIVATED, TEAM PLAYER, ORGANISED AND ARTICULATE

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DEGREE LEVEL 2 YRS EXPERIENCE IN FINANCIAL SERVICES, PROJECT AND DATABASE MANAGEMENT EXPERIENCE DIRECT MARKETING EXPERIENCE

STRONG WRITTEN AND VERBAL COMMUNICATION SKILLS, ANALYTICAL, ATTENTION TO DETAIL, TEAM PLAYER, IT LITERATE

DERIVATIVES

PHD/MSC IN QUANTITATIVE SUBJECT, KNOWLEDGE OF OPTION PRICING, STRONG COMPUTER/SPREADSHEET SKILLS, EXPERIENCE OF DERIVATIVES

ANALYTICAL, ARTICULATE, INNOVATIVE, A TEAM PLAYER WITH STRONG COMMUNICATION SKILLS, CFA OR MBA USEFUL

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STRONG COMMUNICATOR, ATTENTION TO DETAIL, STRONG PROBLEM SOLVING SKILLS, FLEXIBLE AND MOTIVATED SELF STARTER

Interested in any of the above positions and want to become part of the world's largest and most successful financial services organisations? Then the Asset Management division of HSBC would like to hear from you. Please send full details to M Goulet, 8 Bevis Marks, London EC3A 7QP, internet recruitment@hsbcam.com or fax 0171 336 5776

HSBC
THE WORLD'S LOCAL FINANCIAL SERVICES

AMERICAN EXPRESS BANK

Investment Specialist Global Equity

We are a leading international financial services company seeking an investment specialist to manage global equity portfolios for high net worth clients.

The role involves the education of relationship managers, closing deals with clients and acting as product champion, as well as working on asset allocation and liaison between the asset management and private banking divisions of the company.

Suitable candidates should have over 10 years experience in the financial sector, combining relevant global investment management, trading and sales experience. Preference will be given to those with a masters level qualification in international business and a working knowledge of at least 2 Asian languages.

Please reply in confidence enclosing your CV and current compensation details to: Heather Davies, Head of HR, American Express Asset Management, Dashwood House, 11th floor, 69 Old Broad Street, London EC2M 1QS.

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
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Would you like to work independently as a member of a small professional team?

We are seeking an

Economist

to complement the research team in our Economic Studies Section.

In this function you will deal - on an academic level - with projects on macroeconomic issues relating to monetary policy. We expect you to be proficient in writing reports and papers; you will also advise your superiors in the conceptual planning and practical implementation of Swiss monetary policy. There will be opportunities of representing the Swiss National Bank at various international organisations (BIS, OECD, etc.). You will also be able to present the result of your own research in academic circles and at international conferences.

You have completed your university studies with a doctorate. A small selection of publications or a stay at a North American university would be an advantage.

If this challenging position appeals to you and you hold Swiss citizenship, as prescribed by law, you are invited to submit your application, complete with supporting documents, to:

BANQUE NATIONALE SUISSE
Personnel Department, Ms Celia Rufer
Börsenstrasse 15, P.O. Box
CH-8022 Zurich
Tel. +41 1 631 11 11
www.snb.ch

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PICTET & CIE BANQUIERS

seeks a

CREDIT RISK PORTFOLIO MANAGER

for the Pictet Asset Management Department in Geneva

The Position
We are looking for an experienced credit risk portfolio manager to join our institutional fixed-income team based in Geneva. Responsibilities will include the analysis and selection of bonds within the G10 countries, and especially within the Investment Grade category. You will manage the portfolio's exposure to credit risk dynamically, by using inputs of our research group following a structured investment process.

Qualifications
You must have an excellent academic record and in-depth knowledge of credit analysis and fixed-income products. You should have at least 5 years experience in credit analysis or in portfolio management gained in a financial institution or an asset management company. You should have practical experience in the credit markets as well as sound theoretical and practical knowledge of credit risk measurement techniques. You should be able to operate within an international environment and have good communication skills. Fluency in English and the ability to communicate in French is required. German would be an advantage.

Pictet & Cie is a bank specialised in institutional and private asset management for an international client base. With funds exceeding 100 billion Swiss francs and over 1,000 staff, Pictet & Cie is the largest Swiss private bank and one of the leading asset managers in Europe.

We are offering a varied and interesting position within a young and dynamic team, as well as an excellent benefits package.

Interested applicants should send their resume, a cover letter and a passport photo to the following address:

Pictet & Cie
Chef du Personnel
Case postale 5130
1211 Genève 11

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Credit Derivatives

A major London international derivatives broker actively seeks self motivated individual to head a team.

Candidates will probably be currently active as either principal or broker.

Salary and benefits will be commensurate with experience.

Please reply in confidence to
Box A6323, Financial Times,
One Southwark Bridge, London SE1 9HL

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At home in the city of Bach

Andrew Clark meets the conductor Herbert Blomstedt as he takes up his appointment at Leipzig's Gewandhaus Orchestra

Among the posters adorning backstage corridors at the Leipzig Gewandhaus is a leftover from last year's Bach week. "Immer nur Bach!(?)" (Always only Bach) it proclaims, somewhat quizzically above a series of programmes pairing Bach with Reger, Bach with John Cage, Bach with Helmut Lachenmann, Bach with George Crumb.

Glance through the 1998-99 season brochure and you'll notice that the city of Bach is widening its horizons in other ways. The Gewandhaus Orchestra has appointed a non-German, Herbert Blomstedt, as its kapellmeister. Honegger, Nielsen and Boulez have been granted equal billing with Mendelssohn, Bruckner and other "house gods". The orchestra's home, named after the Cloth Hall where it first gave concerts more than 200 years ago, has begun to advertise itself as a venue for downmarket commercial promotions.

A decade ago, all this would have been heresy. Communism shielded the Gewandhaus from market forces, but it also denied Leipzig the external influences that nourish and enrich a tradition: breadth of repertoire, high-calibre guest artists, contact with international musical trends, healthy competition. The Gewandhaus has adapted slowly and reluctantly to the post-Communist era, and the result is not quite as daunting as some feared.

True, the payroll has dropped and ticket prices have risen – but nothing like as dramatically as elsewhere in the former East Germany. The orchestra itself has changed little. It still plays Bach every Saturday in the Thomaskirche, it still divides its time between concert and opera. It sounds much as it always did: homogeneous in sound, mellow in articulation, delicate in string tone, with a corporate musicality that is the opposite of brassy or soloistic.

He may not be a man of surprises, but he is the right man for Leipzig

No one has left in search of higher wages elsewhere. Although a few west Germans and foreigners have joined, the Gewandhaus continues to draw most of its personnel from its own music academy, so that each new generation is reared in the tradition of the old. So why did the orchestra nominate a Swede as its 18th kapellmeister, successor to such illustrious names as Nikisch, Furtwängler and Konwitschny? At first glance, Blomstedt was a curious choice. He is the same age as his predecessor, Kurt Masur, and nothing like as charismatic. But as anyone familiar with Blomstedt's decade with the San Francisco Symphony will know, he has hidden strengths, principal among them being his consistency, his orchestra-building skills, and his quiet authority in the Austro-German classics – the heart of the Gewandhaus repertoire.

The Gewandhaus was not in the mood for experiment. Although Masur had fought long and hard for the orchestra, his last years in Leipzig were not happy. He resigned in 1996, before his contract ended, leaving the Gewandhaus leaderless for two years. That left its mark on playing standards, and weakened the orchestra's power-base.

Blomstedt is sufficiently well-known in Saxony to count as an honorary German. Before San Francisco, he spent 10 years as principal conductor of the Dresden Staatskapelle. His integrity impressed musicians and audiences then, much as it does today. With 35 Leipzig concerts to conduct each season (and more on tour), Blomstedt is no jet-setter. He takes his responsibilities with the same seriousness as conductors of old, and evidently with a lot more pleasure. He may not be a man of surprises, but he is the right man for Leipzig.

He has imported a dynamic young manager from the Schleswig-Holstein festival, and rearranged the orchestra's seating to its pre-1960s configuration (violins to left and right of the podium, cellos and basses next to first violins). Mozart, Haydn and Mahler, all comparatively neglected by Masur, are back in favour; so are non-German composers who, because of the cost of hiring orchestral parts in the Communist era, simply were not played.

Recalling his Dresden experiences, Blomstedt says one performance of *Daphnis et Chloë* would have emptied the orchestra's purse for an entire season. "The authorities wanted to show they had the best – but in reality it was a prison, and the orchestras had to survive on their own. The reason Leipzig and Dresden were so great historically was that they guarded their tradition against influences they didn't want, but at the same time had access to influences they did want. After 1933, it was no longer possible to get the breadth of influences they needed. It's amazing they maintained such high standards for so long."

Although money is still tight, Blomstedt wants the Gewandhaus to open its doors to the best the world can offer. Alfred Brendel, Evgeny Kissin, Yo-Yo Ma and Jessye Norman are among this season's soloists. Yuri Bashmet will play Gubaidulina's *Offertorium*, Daniel Harding will conduct Boulez's *Notations*.

Blomstedt is already more at ease in Leipzig than he ever was in San Francisco, where his ascetic lifestyle seemed at odds with the city's libertarian ethos. He recalls with a wry smile the occasion when someone on the San Francisco programme committee proposed a 10-year moratorium on Beethoven performances. "Of course, you'd never have that in Germany. One of the joys of working here is that the music I consider to be the greatest is their music. When I play Beethoven, I'm sharing it with people to whom it belongs, culturally and geographically. Leipzig is where Bach worked every day, where Schiller wrote his *Ode to Joy*. There are so many connections – it's a privilege to be part of it."

It is just as much a responsibility. Among the contractual duties of the Gewandhaus kapellmeister is the cultivation of Bach playing. But the Bach tradition Blomstedt inherited was "little more than treading the mill, carrying on what was done in the 1920s"; and Bach was reserved for the Thomaskirche. That is changing. On a recent tour of France, Blomstedt took Bach's second orchestral suite – a piece the Gewandhaus did not previously have in its repertoire. And he is clearly tickled by the scope for programme links with Mendelssohn, Reger and other Leipzig composers influenced by Bach.

Blomstedt's interest in the baroque is not new. Indeed, he describes Bach as his first love. At school, he used the suites and partitas for violin practice; as a student musicologist in the 1950s, he immersed himself in baroque performance practice, long before it became fashionable; and for his conducting debut with the Royal Stockholm Philharmonic, he chose a Bach suite, suitably cleansed of corrupt markings.

Working with big symphony orchestras in the intervening 40 years may have put Blomstedt's Bach on ice, but it has not dimmed his interest in period style. So when the original-instrument Orchestra of the Age of Enlightenment invited him to work with them, the answer was yes. The outcome is that Blomstedt – who is very choosy about guest engagements – will make a rare London appearance next Tuesday at the Queen Elizabeth Hall, conducting the OAE in Schubert and Brahms. Let's hope that when he returns in October for his first UK concerts with the Gewandhaus, we'll be allowed a progress report on Leipzig's Bach.

'It's a privilege to be part of Leipzig's musical tradition': the Gewandhaus's new kapellmeister, Herbert Blomstedt

A star who fails to shine in Stratford

THEATRE

ALASTAIR MACAULAY

The Winter's Tale
RSC, Stratford-upon-Avon

The most newsworthy feature of the Royal Shakespeare Company's new production of *The Winter's Tale* is that the star actor Antony Sher plays the jealous tyrant Leontes. Originally he was due to play both that role and the clown/knave Autolycus, a rare double-act. In the event, however, Sher proves the largest of the production's three disappointments.

The best news about this staging proves to be its least newsworthy feature: namely, that Gregory Doran, directing, gives us an honest, serious, and unradical account of the play, in which the RSC delivers excellent ensemble playing, amid which two of the three female roles are played with great distinction.

Doran and his designer, Robert Jones, set the play somewhere before and after the first world war. Although this casts no particular illumination – Shakespeare seems to have had some ancient-to-medieval era in mind – most of the cast make its every detail become organic. The heavy bustles worn by Leontes's wife Hermione and her ladies, an elaborate stole she employs, a 78rpm gramophone: these and other un-Shakespearian properties become part of the fibre of the play because they are so naturally and expressively handled here.

The Bohemian idyll in the second half is a perfect contrast to the previous, formal court scenes in Sicilia; and the idyll would be utterly engaging were it not for three things. One: as so often with the RSC today, accents are all over the place. The Old Shepherd talks Irish. His son talks Mummerset. Two: Perdita is played as a coarse hoyden by Emily Bruni, so that it is impossible to believe those characters who see in her the grace of royal bloodlines. Three: Autolycus, as usual in recent British productions, is played without charm by Ian Hughes (in a Welsh accent). Nonetheless, this whole episode has vitality and colour, and the young actors cast as Florizel (Ryan McCluskey) and the Young Shepherd (Christopher Brand) bring charm and sweetness to it.

At the Sicilian court, we encounter the two finest performances of the production: Alexandra Gilbreath as Hermione and Estelle Kohler as Paulina. The keenness of Gilbreath's attention to other characters, the radiance of her presence, the spontaneity and intelligence with which she utters every word: these light up the role and the play. If only she learnt how to breathe deeply and to enrich her voice with a greater security of lung power and proper control of inflection, she could become a 10 times greater – or rather 10 times less limited – actress. And Kohler catches at once, without any hint of exaggeration, the vehement moral urgency which distinguishes the role of Paulina. With both of these actresses, we travel real journeys of the spirit: with Hermione/Gilbreath, a journey of suffering innocence and of endurance; with Kohler, a journey of sympathy and of time's depredations.

Sher, however, gives (as usual) a performance that is all impressive surface without depth, and we travel nowhere with him. Even though this is one of his most deliberately restrained performances, with whole sections delivered between *piano* and *pianissimo*, his acting remains of the flashy kind beloved of all too many British critics and spectators, and here he delivers certain stunts that are both characteristic and irritating: the big apoplectic fall backwards (you can see him preparing for it) is merely the most obvious. When Hermione and Polixenes handle her stole, they deepen our understanding of their characters; but when this Leontes smokes, or manipulates a handkerchief, he merely draws attention to his acting technique. To make matters worse, he and Autolycus are the only characters who are audibly amplified and are persistently trailed by two follow-spotlights. When Hermione/Gilbreath says: "My life stands in the level of your dreams", she lights up Shakespeare anew; when Leontes/Sher replies "Your actions are my dreams", (stressing unhelpfully the nouns rather than the verb), he delivers a display of his vocal artfulness. This *Winter's Tale* shines best when its star actor is not involved.

Outshone: Antony Sher (right) with Alexandra Gilbreath, who turns in the finest performance — Robbie Jack

MUSIC IN LONDON DEMIDENKO / KENNER

Surprising Chopin

All-Chopin recitals should be either on a salon-scale, as Chopin's own recitals almost always were, or else performed in a bigger hall with broad authority – which is rare. Too many pianists overestimate the charm of their special ways with that supremely pianistic composer. Rather sooner than later, their special ways get in the way.

That was what happened with Evgeny Kissin last month at the Wigmore Hall. Many of the *24 Preludes* were reduced to the scale of his digital finesse. So I looked forward to Nikolai Demidenko's account of the *Preludes* last Monday, expecting it to be chilly but impressive, in a BBC lunchtime recital from the same hall; but something was wrong. The first 15 preludes were unvaryingly temperate and sober, even dour: no lift, no rays of brightness, no sudden intimacies.

Then, quite suddenly, the B-flat minor prelude came apart under Demidenko's hands; and in five of the remaining pieces there were continual lapses. I suspect that the poor man was either coming down with 'flu or only half-recovered from it. In the circumstances, reporting on his truly weird versions of three Rakhmaninov *Etudes-Tableaux*, with more distracted lapses, would be out of place.

The previous night, however, had Kevin Kenner playing only Chopin, and that was a great and unexpected delight. Unexpected, because so few of us here know anything about him; in fact this American pianist won the 1990 Chopin Competition in Warsaw – no mean feat for a westerner – and several other awards, and pursues a lively international career. So far, however, Kenner has barely touched down in London.

Not a showy performer, he proved nonetheless to be a Chopin player of grace, subtle variety and strength, with a mature grasp of dramatic structure and proportion: in short, a grown-up musician nearing his peak. It was pure pleasure to hear him artfully languishing in the C-sharp minor Prelude, and then finding a distinct, incisive character for each of the four Scherzi – always faithful to the text, but always fresh, too.

In his second half the late E-flat Nocturne mooned and sang, in almost-vocal duet, with unstinting decadence, and three late Mazurkas were treated to fascinating lights. A quibble: I missed the second-beat lifts which should always distinguish Chopin's mazurkas from his *valses*, lending them a quite specific kind of rhythmic life. Kenner's were a bit spectral, losing that identifying kick.

Then, however, he addressed the Second Sonata with vibrant attack and keen intelligence, and some properly sounded depths: "classical" and magisterially rounded; indeed, it was a roundly satisfying performance. I look forward to hearing a lot more of Kenner.

David Murray

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
The Festival of Lithography: celebration of the 200th anniversary of the discovery of lithography. The exhibition consists of works from the collection, including lithographs by Toulouse-Lautrec, works by Cézanne, Manet, and Dutch artists including Van Gogh; to Jan 10

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Mary Cassatt: Modern Woman. 125 paintings, drawings and prints by the only American invited to exhibit in the impressionist exhibitions in Paris; to Jan 10

COLOGNE

OPERA
Oper der Stadt
Tel: 49-221-221 8240
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Jan 8

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Joan Miró: major retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

HAMBURG

EXHIBITION
Kunsthalle
Kandinsky, Chagall, Malevich and the Russian Avant-Garde: show tracing the art movements between the Russian revolutions of 1905 and 1918, and focusing on attempts by artists to fuse aspects of folk culture with Western modernism. Many of the 100 works on display are on loan from Russian museums; to Jan 10

LONDON

CONCERT
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Ryusuke Numajiri in works by Saint-Saëns and Tchaikovsky, as well as the UK premiere of Sofia Gubaidulina's 'The Canticle of the Sun'. Featuring cello soloist Mstislav Rostropovich; Jan 13

EXHIBITION
Victoria and Albert Museum
Tel: 44-171-938 8500
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895. The exhibition marks the centenary of Beardsley's tragically early death, aged 25; to Jan 10

THEATRE
Albery
Tel: 44-171-876 1115
Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy; Jan 8, 9

National Theatre
Tel: 44-171-928 2252
Betrayal: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Calf and Imogen Stubbs; Lyttleton Theatre; Jan 8, 9, 11, 12

LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Madama Butterfly: by Puccini. Conducted by Marco Guidarini and directed by Christopher Harlan. With a cast including Yoko Watanabe, Richard Leech and John Atkins; Jan 10, 13

MILAN

OPERA
La Scala
Tel: 39-02-88791
The Fiery Angel: by Prokofiev. Bruno Bartoletti conducts a staging by Giancarlo Cobelli, with Karen Huffstodt and Elmira Magomedova singing alternate performances as Renata; Jan 14

NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Balanchine Black and White Celebration: George Balanchine, one of the greatest of 20th century choreographers, directed New York City Ballet until his death in 1983. As part of its 50th anniversary celebrations, NYCB presents pieces from Balanchine's Black and White repertory; Jan 8, 9, 10

EXHIBITIONS
Guggenheim Museum SoHo
Tel: 1-212-423 3500
www.guggenheim.org
Premises: Invested Spaces in Visual Arts, Architecture & Design from France, 1958-1998. Exploration of the different ways in which artists have engaged with space. Display ranges across installation, film, video, photography and architecture. Includes works by Yves Klein, Le Corbusier, Louise Bourgeois and Sophie Calle; to Jan 10

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
The Nature of Islamic Ornament, Part II: Vegetal Patterns. Second in a four-part series on Islamic ornament from the 9th to the 18th century. Includes rare brocades and carpets; to Jan 10

Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia; to Jan 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers; Jan 9, 14

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Lorin Maazel in works by Weber, Debussy, Schubert and Ravel; Jan 13, 14

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
Lorenzo Lotto: Rediscovered Master of the Renaissance. 50 paintings, many of them on loan from churches and museums in Italy; to Jan 11

PRAGUE

THEATRE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 11

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Up to the bare bones: Human remains in museums. An estimated hundred thousand human beings find their last resting place in Dutch museums, whether in the form of mummies, skulls, skeletons, reliquaries or otherwise. This exhibition is the first to address this phenomenon directly, presenting exhibits from varied collections;to Jan 10

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
● New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Shostakovich; Jan 10
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Mendelssohn, Barber and Mahler. With violin soloist Gil Shaham; Jan 8, 9, 10

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hampe, conducted here by Heinz Fricke; Eisenhower Theater; Jan 9, 11, 13

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

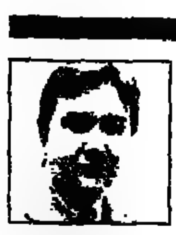
EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports:
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.



PHILIP STEPHENS

Trivial pursuits

It is not only our political leaders who are diminished by the failure to draw a line between the personal and the public

Here is what has been happening in Britain. Tony Blair's government (you know, the one that swept to power in May 1997 with an impregnable majority) has been rocked by the resignation of a press officer. Mr Blair has suffered a serious scolding because his three young children were late back at school after a family holiday. I'm serious. Welcome to Cool Britannia.

Assiduous readers and listeners, of course, may have picked up one or two other items of news. The world's only superpower has put its president on trial for philandering. The Queen's youngest son announced his engagement to a rather charming public relations consultant. *En passant*, Europe launched a single currency and Saddam Hussein sent his warplanes to challenge US and British forces in the Gulf.

It was Mr Blair's troubles, though, that pumped the adrenalin of headline writers and programme editors in Britain. Gordon Brown, the chancellor, had been asked by the prime minister to sack a man by the name of Charlie Whelan. Mr Whelan is Mr Brown's colourfully menacing press secretary. Meanwhile, late back from the family's New Year sojourn in the Seychelles, the young Blairs risked falling behind on their homework. We are not just talking tabloids here. The BBC, that venerable bastion of public service broadcasting, was every bit as breathless.

I am still serious. The temptation is to say that all this is simply another reminder of the media's obsession with trivia. And there is a grain or three of truth in that. Yet in a curious, if barely intentional way, these two stories were important. Making sense of them tells us something about the nature of modern politics and the condition of Mr Blair's government.

Embedded in both is the fact that the political has subsumed the personal. The great ideological cleavages of the 20th century were buried in the rubble of the Berlin Wall. Politics has since become ever more indistinguishable from its practitioners. Granted, it is a profession in which the characters have always mattered. But so, once, did the policies.

There was also a fairly stable boundary between the public figure and the private person. Just as 19th century Britons were uninterested in William Gladstone's habit of visiting some of London's less salubrious districts, 20th century Americans did not ask what Jack Kennedy got up to when he booked a Washington hotel suite.

The boundary has been demolished. As Bill Clinton can attest, privacy has been replaced by the public's right to pry. And this new intrusiveness is infused with a virulent strain of puritanism. It is sometimes said there is an important difference between now and then. Kennedy, Roosevelt and, for that matter, Thomas Jefferson did not lie about their sexual adventures. It seems to me that the more telling point is that they were never asked to.

Today's right to know goes beyond prurient inquisition into the sexual preferences of our political leaders and holier-than-thou probing into the state of their bank accounts. Take Mr Blair. Rather than ask what he stands for, we want to know what he's like. How much did he spend on his winter holiday, how does he get on with his wife, how well is he bringing up his children? And when we discover he is faithful, he goes to church and has never smoked dope, we must look elsewhere. We need, it seems, to humble our politicians. We crave proof they share our own frailties.

The notion that a day or two out of school could affect the Blair children's education is clearly vacuous. And that Mr Blair takes the occasional break from an impossibly demanding job to spend time with family reflects an unfamiliar sanity among politicians. Tell that, though, to John McIntosh, the Blair boys' evidently eccentric headteacher, or to the similarly sanctimonious teachers' representatives who have filled the airwaves with accusations that the prime minister has shown a bad example.

On display here is a dismal shallowness, the absence of any capacity to distinguish between what affects the public interest and what doesn't. This matters. Because personality, character, call it what you like, does sometimes make a big difference in politics. And, funnily enough, we can see how in that other story about Mr Whelan.

Briefly, Mr Whelan was Mr Brown's loyal soldier in the corrosive squabbles that have scarred Mr Blair's cabinet. The personal animosities came to a head before Christmas when two senior ministers were forced to resign. One of them, Peter Mandelson, was Mr Blair's closest political soulmate. Mr Whelan's hand was suspected. Understandably enough, the prime minister wanted his head.

The real story, though, is about Mr Brown. Here is a chancellor as powerful as any in modern British history. He can claim to be the intellectual force behind much of what Mr Blair has created in New Labour. Yet something in his character says this is not enough. He was robbed, at least that is what he thinks, of the leadership. The wider world must understand that, while Mr Blair coins the snappy phrases, Mr Brown writes the serious scripts. Thus the chancellor's achievements are lost in the image of a man nursing a grudge.

Mr Blair's government is damaged in consequence. Many in the inner circle suppose the prime minister's relationship with Mr Brown will one day snap. Mr Blair protests that his cabinet is free of the ideologically-driven fratricide that eventually destroyed John Major's administration. But the feuding between his ministers is all the more poisonous for that. Here is a genuine case where the private emotions cannot be divorced from the public interest. Ambition is far more destructive in politics than sex or money.

What's needed from the rest of us, though, is a willingness to discriminate between the important and the trivial – an understanding of where to draw the line between the personal and the political. We should neither care nor be surprised if politicians are oversexed. It does matter when they let their psychological flaws get in the way of good government.

Richard Nixon was driven from the presidency because he was politically corrupt. Mr Clinton is on trial because a moral majority Republican in the guise of a federal prosecutor trapped him into lying about sex.

Politicians, of course, must take their share of the blame for this failure to discriminate. They have been too keen to package the moral with the political, to preach rather than propose. Happy family campaign literature invites charges of hypocrisy. But this is about more than being fair to politicians. I cannot see what any of us gain from testing to destruction the obvious fact that the people we elect are like the rest of us – human.

LETTERS TO THE EDITOR

Asian Development Bank should have confidence to develop its role

From Mr William Thomson.

Sir, Your editorial ("Asia's own bank", January 5) raises a valid question about the future of the regional development banks in general, and the Asian Development Bank in particular.

One could argue quite persuasively that Asia needs the ADB as well as the World Bank since competition in the provision of all services is better than monopoly. Since the ADB is a more efficient provider of those services, assuming equivalent quality, there is little additional cost to the international donor community from the duplication of agencies. With Washington-based institutions being accused of both policy arrogance and being agents of the US government, the ADB is usually seen as more understanding of its clients' needs. This almost automatically ensures less radical policy prescriptions and an effective balance to support given by the World Bank and the International Monetary Fund.

You are correct that Mitsuo Sato was effective in moving the bank to address many of the problems affecting the region with an innovative approach to infrastructure spending, even addressing issues of governance and corruption. In this he was responsive to donors and regional governments and was able to develop a consensus on these issues.

However, that message is not heard in the wider community and, in that respect, I would agree that the ADB must argue its case far more effectively to the non-Asian public if it is to continue to obtain support from the main OECD countries.

The causes of its failure to do so are two-fold. First, a reluctance of the Japanese authorities to take and maintain a high profile position if it conflicts with momentary US government interests. The ADB, while important to the Japanese, tends to take second place to other issues in the US-Japan policy relationship. Second, the US authorities are more than ambivalent about the ADB developing a high profile that would imply any diminution of their ultimate control. Furthermore, US government interests are ever-changing, responding to the latest zephyr blowing through Congress.

The institution remains a useful organisation, valued and trusted by its regional members. It has improved by leaps and bounds in recent years. However, greater confidence and willingness to take risks are essential to the maturation process so that the organisation can take a fully independent, even controversial, position. Then it will be closer to maximising its potential as a full partner in development. But that will require a willingness of its two principle shareholders to give the organisation a free rein.

William R. Thomson,
Room 7D,
On Hing Building,
On Hing Terrace, Central,
Hong Kong

IoD membership backed stance over euro

From Mr Nick Herbert.

Sir, Giles Radice MP (Letters, January 6) is wrong to suggest that the Institute of Directors' membership does not back its policy opposing the UK joining the single currency. The policy was formed at the annual convention in 1996 when the proposition that "the likely benefits of a European single currency would be outweighed by its disadvantages" received 69 per cent support. Mr Radice's claim that "there has never been an impartial survey" of IoD members is also incorrect. A survey of members in 1996 revealed that less than a third supported the single currency.

The European Movement's case is devoid of real analysis of the costs and benefits of the euro for Britain. The economic arguments for Britain to keep its own currency cannot just be swept aside by glib assertion. We are told, for instance, that we would have "competitive advantage" in the euro-zone. How would the wrong level of interest rates imposed on the UK advantage us? Or higher corporate taxes brought in under the guise of harmonisation? Who will pay for Europe's unfunded pension liabilities? In the euro-zone, grand vision was enough to launch the euro because it was, above all, a political project. Businessmen in the UK will be more hard headed about the risks.

A group of leading UK businessmen and economists warned that the single currency will be no panacea for Europe's problems but could exacerbate them. That was a serious contribution to the debate on whether economic and monetary union is right for Britain. To answer it, the European Movement will have to do more than sloganise and snipe at the legitimate concerns of businesses that disagree with them.

Nick Herbert,
chief executive,
Business for Sterling,
18 Buckingham Gate,
London SW1E 6PE, UK

Dangers of dual pricing in Europe

From Mr Philip Myers.

Sir, In the case of the UK, Emma Tucker is right to entitle her article (January 6) on the euro and dual pricing "Dangers lie in dual pricing" – though not, as she suggests, because UK retailers will be attempting to hide price differences with continental counterparts.

Dual pricing results from wide variations in taxation regimes, social security systems, land prices, wage levels etc. The modest additional degree of price transparency fostered by dual pricing is unlikely to change this (and it is insulting to suggest that customers are unable to compare prices in different currencies).

The real dangers in dual pricing in the UK lie elsewhere. First, as long as the UK remains outside the eurozone, the exchange rate between sterling and the euro will fluctuate. This means accurate dual pricing in the UK would require daily changing of price labels which would be costly and impractical. The alternative of using an average exchange rate would be misleading to consumers.

Second, as euro notes and coins are not yet in circulation, tourists wishing to pay for goods in the UK with euro payment cards will find that the euro price indicated is not the amount debited from their account due to transaction charges levied by their banks.

For retailers in the UK to dual price would be as misleading as the argument that introduction of the euro alone will lead to prices being the same throughout Europe.

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Brave new work

Tony Jackson takes issue with pessimists who foresee the death of employment in a world of ever-increasing automation and sated consumer desires

As the world peers doubtfully into the next century, one of its nagging anxieties concerns the future of work. Jobs have been lost to automation for 200 years, and new ones have always sprung up to take their place. But this time, we are told, it is different.

In the Industrial Revolution, steam and water power replaced only our muscles. Now the computer is replacing our brains. The way lies open to the triumph of the machines.

If you believe this, the outlook for *Homo sapiens* is dispiriting. A handful will still earn vast sums specialising in human greed – as corporate lawyers, say, or investment bankers. A few more will prosper in the dominant technologies, as internet wizards or rat cloners.

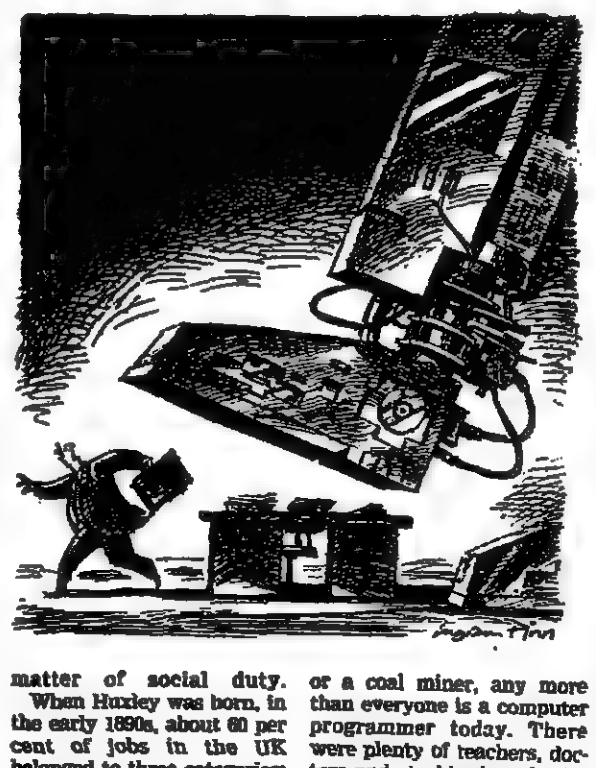
The rest of us, the pessimists argue, have two choices. We can settle for low-wage jobs, drudging in sandwich bars and call centres. Or we can seek to devise ever more exotic goods and services, in the hope that people will carry on consuming long after their rational wants have been supplied.

There is no doubt that the pace of change has become slightly unnerving. Close to the FT's London headquarters is the London International Financial Futures Exchange. It employs an army of garishly dressed traders who deal in complex financial instruments through the noisy and colourful system of open outcry.

That job has existed in the UK for less than 20 years but this year could prove its last. The exchange is moving to screen-based trading. The computer has claimed its latest victims.

What is left for these traders or their children? To answer that, a little historical perspective is called for.

The classic apocalyptic text on the death of work remains Aldous Huxley's *Brave New World*, from 1932. In this novel, jobs not done by machines are performed by chemically engineered zombies. The intelligentsia live in idleness, sedated by drugs and programmed to consume as a matter of social duty.



When Huxley was born, in the early 1890s, about 60 per cent of jobs in the UK belonged to three categories: farming, mining and manufacture. When he wrote his novel, that had fallen to nearer 40 per cent. The figure is now 16 per cent.

On the face of it, this represents a savage destruction of jobs: close to 5m, or a quarter of the working population. But that work has been more than replaced. In Huxley's day, the working population totalled 20m. Today it is 27m.

Where has all that work come from? A big chunk, perhaps 4m jobs, can be accounted for in just four areas: education, health, finance and the catering trade. By comparison with 70 years ago, people are better educated and live longer. They also have more money to save and invest, and to spend on eating out or a drink in the pub.

This is a useful corrective to the assumption that the workforce has fundamentally changed. Not everyone used to be a textile worker or a coal miner, any more than everyone is a computer programmer today. There were plenty of teachers, doctors and stockbrokers in the past. The difference is that there are a great deal more of them today.

The more we have to spend, the longer shops, bars and restaurants have to stay open

Similarly, today's junior office workers perform tasks that might have seemed incomprehensible even 20 years ago: sitting at a computer, using Word for Windows, Lotus Notes and so forth.

On closer inspection, they are not so very different from the stenographer typists of 50 years ago, or even the Dickensian copying clerks of the last century. The chief difference, as with teachers and doctors, is that there are more of them.

All this, the doom-mongers would say, is beside the point. Of course it is nice to have more services, and to be able to afford them. But no matter how sophisticated the jobs we invent, the machines will always tend to usurp them.

That is, we will always have to devise more and more things for people to use and enjoy. This in turn supposes that people have an infinite capacity to consume. And how are those infinite new goods and services to be paid for?

The second point can be briskly dismissed. Output is output, whatever it consists of. The more a society produces, the richer it is. New goods and services afford themselves.

The first point is allied to a common economic fallacy, that of the lump of labour. This is the belief that there is only so much work to go round, which is obviously false. But what of the lump of consumption? Is it possible for people to become so gorged that they can consume no more?

No, for two reasons. First, it is a fair rule of thumb that we regard as inessential whatever was not around when we were growing up. There are still plenty of retired people who think microwave ovens and video recorders are fripperies. Their children, with children of their own to feed and entertain, might beg to differ.

Second, not all new services need be exotic. I am presently seeking a second-hand car and have come across a man whose business is to go to car auctions and, for a fee, buy cars to his customers' specifications.

This is plainly a useful service and, so far as I know, one that is new. But it is not novel. A century ago, it would have been possible to buy horses on the same basis. The question is whether enough people could have afforded the service to make it viable.

The risk, in fact, may be not a shortage of work in future but the reverse. Our appetite for services, in particular, seems insatiable. The healthier and better educated we are, the more we expect of our doctors and teachers. The more we have to spend, the longer shops, bars and restaurants have to stay open.

The death of work, in other words, is likely to be the least of our worries. There will be plenty of work to go round: and far from being weird and wonderful, it may be all too boringly similar to what went before.

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FINANCIAL TIMES

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Friday January 8 1999

The dilemma for Europe

A gloomy forecast from the German Institute of Economic Research's (DIW) and yesterday's one-quarter percentage point cut in UK official interest rates point, from different directions, to the same question: are euro interest rates too high?

The European Central Bank was probably right not to make a move yesterday at its first meeting in full charge of euro-zone monetary policy; but it was wrong to rule out changes for the foreseeable future. Short-term inaction is plausible: the markets are still getting used to the new currency. Moreover, the 3 per cent rate, which it inherited from 11 central banks, was the result of a significant cut when rates were aligned on December 9.

Since then, however, the outlook for growth and employment has worsened. This week the DIW predicted that growth in Germany (which accounts for more than one-third of the euro-zone's output) would slow to only 1.4 per cent in 1999.

The DIW's figures are part of a pattern of increasing pessimism in the outlook for the whole euro-zone. The consensus of international forecasts now puts euro-zone growth at 2 per cent for next year, with inflation remaining very subdued at little more than 1 per cent.

The risk, clearly, is that contraction in Japan, with a sharper-than-expected slowdown in the US could depress euro-zone growth even further, or perhaps even move it towards the edge of a deflationary vortex.

This danger may not at present seem high. But a collapse of equity prices, retrenchment by US consumers or an unravelling of the Brazilian rescue package (to name but three possibilities) could rapidly darken the picture. With euro-zone unemployment forecast to remain stubbornly above 11 per cent in 1999, these risks cannot lightly be dismissed.

What then should the ECB do? It can rightly claim that with real official rates at around 2 per cent, its policy is already expansionary. Lower-than-expected inflation may, in addition, have a similar effect to tax cuts in boosting consumer spending. Moreover, in continental Europe, where borrowings tend to be long term, changes to short-term interest rates have a relatively weak effect on output.

Even so, the immediate risks of *recession are so much greater* than those of inflation that the ECB should lean towards promoting demand. In its first year particularly, its mission to control inflation must be tempered by awareness of the wider economic and political context. The Bank of England's recent rate cuts suggest that focusing on an inflation target can be quite consistent with moves to stimulate the economy. Above all, whatever the ECB decides to do, it must explain clearly and promptly what it thinks is happening, and why.

Test for Brazil

The sharp dip yesterday in Brazilian stock and bond prices has marred an otherwise bright start to the year on the international markets. Investors are nervous about the implications of a decision by one of the country's wealthiest states to suspend payments on debt owed to the federal government.

The moratorium, announced late on Wednesday by Itamar Franco, the governor of Minas Gerais state and a former president of Brazil, is the latest of a number of political setbacks for President Fernando Henrique Cardoso, as he struggles to persuade congressmen to approve an ambitious programme of fiscal adjustment.

The President must resist any temptation to bail out Minas Gerais. To do otherwise would further jeopardise the fiscal reforms, upon the success of which the $41.5bn international financial package depends. Although the government insists that its fiscal programme is still on track, recent events have damaged its political authority in the eyes of international investors. Last month, congress voted down the government's plans to lift pension contributions. The implementation of a new financial transactions tax will probably be delayed.

The government is in a strong position to resist Mr Franco's demands. The federal authorities can simply recoup loan losses by suspending transfer payments normally made to the states.

Mr Franco's political case for a moratorium is weak. The debt that he wants to reschedule is soft money made available on extremely favourable terms. Minas Gerais pays interest at 6 per cent to 7.5 per cent a year compared with the current market rate of about 30 per cent, for example.

Moreover, the state's government has been slower than those of many other states to rationalise its overstaffed administration *and could generate resources by* cutting spending.

Confrontation carries a number of risks for President Cardoso. There are already signs that the moratorium could trigger similar actions by other states, such as Rio de Janeiro, which are run by his opponents.

Worse, the moratorium risks fracturing President Cardoso's political support base in Congress. Mr Franco's party – the PMDB – is a member of the five party pro-government alliance. But although conflict must be handled with finesse, a tough stance is essential. It would not only enhance the President's reputation in the international community but also underline his commitment to bring about genuine and far-reaching fiscal reform. President Cardoso must stand firm.

Turkey's travail

After six weeks of wrangling, Turkey may soon get a new government, but only one likely to last until elections set for April. President Süleyman Demirel has been casting around for someone to replace Mesut Yilmaz, who was forced to resign last November on corruption allegations. Yesterday, for the second time, he asked Bülent Ecevit, the veteran leftwinger, to form a government. It looks as though Mr Ecevit may finally succeed in putting together a majority, because this time Tansu Çiller, the conservative former prime minister, says she will join him in coalition.

But what a travail just to produce a stop-gap government, and what an inopportune outcome in terms of recent developments in Cyprus. Mr Ecevit was the Turkish prime minister who in 1974 sent tanks and troops into Cyprus. He is thus hardly one to respond to the Greek Cypriot government's decision to keep its newly acquired Russian missiles off the island.

In a wider perspective, Turkey's record of unstable coalitions highlights longer-term problems. Many can be traced back to the military and the tutelage the generals exert over politicians, and to their repressive views towards Turkey's Islamists as well as its Kurdish minority.

During the cold war, the exclusion of Italy's large Communist party from government helped guarantee a string of unstable coalitions there. In the same way, the Turkish military's insistence on excluding the Islamic-leaning Virtue party – which under the name of Welfare topped the poll in 1995 – helps achieve the same sorry result in Turkey.

The Islamists did share power for about a year. But the strongly secular army forced Welfare out of office in 1997, got it banned as unconstitutional and refuses to let the renamed Virtue party back. Yet the party may well improve its score in the April elections, and now purports to be more moderate and pro-western, and even embraces the idea of European Union membership.

Explicit exclusion of Virtue would be unnecessary if the other parties that took 80 per cent of the 1995 vote could sort themselves out. But the right and left are both split by personality feuds that bear no relation to ideology, and seem to flourish among politicians who know that real power lies with the military.

Last week Turkey's top army commander rightly said the country needed stability more than ever. Mr Yilmaz has left economic achievements, such as a halving of the inflation rate in 18 months, that deserve to be built on. But stability cannot be built on the indefinite exclusion from power of one important part of the political spectrum.

Fast and loose in Detroit

The rumour mill at the motor show is working overtime but while the takeover candidates are obvious, the shape of potential alliances is less clear. **Haig Simonian** reports

The ice packs in the Detroit River were thicker than ever this week as Motown braved its coldest January in years. But inside the vast Cobo exhibition centre where the world's carmakers showcase their wares once a year, temperatures were sizzling, stoked by rumours of imminent mergers and takeovers.

After weeks of speculation, it emerged on Wednesday that Volvo has appointed a US investment bank to examine strategic options for its car division. Potential suitors for the struggling Swedish carmaker include Ford, Fiat and Volkswagen.

Ford was also at the centre of Detroit's rumour mill this week with reports that the world's second-biggest car company was poised to buy BMW of Germany and Honda of Japan.

Consolidation rumours revved up car shares faster than a turbo Porsche, but some disappointment for investors appeared inevitable. BMW and Honda denied they were in negotiations with Ford, while Jac Nasser, Ford's chief executive , called the report "preposterous".

If some rumours have proved to be wide of the mark, some denials have also come close to sounding disingenuous.

Executives admit in private that many carmakers are locked in almost permanent talks against a backdrop of chronic overcapacity, rising costs and cut-throat competition.

Negotiations have become more urgent for three reasons.

First, the surprise takeover of Chrysler by Daimler-Benz last May changed the rules of the game for the car industry.

Every manufacturer, starting with General Motors, the biggest, has been forced to reassess previous assumptions about optimum size and economies of scale.

Second, merger talks have been galvanised by developments in other industries. Since the Daimler-Chrysler deal, oilmen, bankers, pharmaceuticals and telecoms executives have launched a number of mergers and takeovers to tackle overcapacity and rising costs that can no longer be passed on to consumers.

Third, the creatures born of these mergers, such as Exxon-Mobil, are so big they have created a sense of awe and expectation in the media. Industrialists, too, are worried lest they are left out of the next consolidation round.

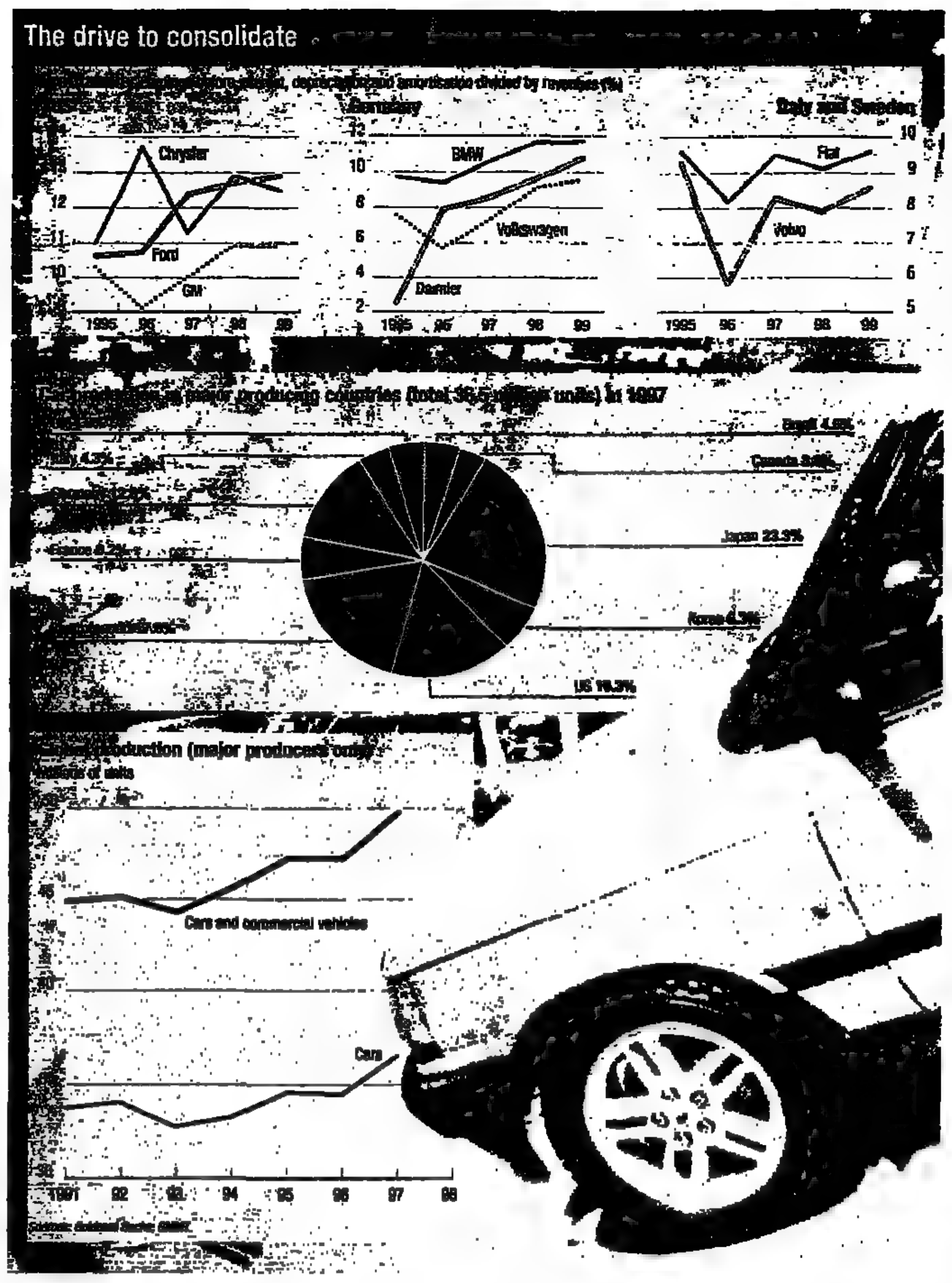
In the car industry, many executives are convinced further deals are inevitable. Bob Eaton, co-chairman of DaimlerChrysler, said this week that he expected a merger of two leading European carmakers to be announced "within the next 90 days".

Jim Donaldson, president of Ford Europe, says: "I believe 1999 will be a year of restructuring." His boss, Mr Nasser, agrees. The future, he says, lies with "very large companies with very good geographic and consumer mixes".

Jack Smith, GM's chairman, predicts more changes in the industry. Asked about the likelihood of further takeovers or mergers this year, he concedes: "I'd say it's possible."

The targets of likely takeovers can be pinpointed with accuracy. What is less clear is who will be doing the buying.

In Japan, a yawning gulf has emerged between Toyota and Honda, the most successful manufacturers, and Nissan and Mitsubishi, the biggest loss-makers.



Battered by recession at home and in south-east Asia, car sales in Japan fell around 15 per cent last year. A rationalisation of the industry has already begun.Further consolidation must only be a matter of time.

Toyota, the biggest of Japan's 11 vehicle makers, has strengthened its hold over Daihatsu, a mini-car specialist, and over Hino, a top commercial vehicles groups.

GM, meanwhile, has raised its shareholding in Suzuki, another mini-car specialist, to 10 per cent. Mr Smith says the stake could rise further. GM has also increased its holding in the Isuzu trucks and engines group to 49 per cent.

Such deals have left Nissan and Mitsubishi increasingly exposed. But the fate of the two groups is not clear. There have been rumours that Nissan could be acquired by a foreign carmakers' consortium, but industry analysts do not believe this is likely to happen.

European carmakers face a different set of problems. Because of the social and political prominence attached to the car industry – however tarnished it may be as a symbol of national pride – it is virtually impossible to imagine a merger of companies of roughly the same size going ahead on the continent. The job losses required to justify such deals could be expected to provoke big social and political protests. So that would appear to rule out a union of France's Renault and Peugeot-Citroën.

Such reluctance has been compounded by the importance Europe's new, left-leaning governments are placing on job creation. "We remain unconvinced that 1999 will be a year when the European industry bites the bullet," says Keith Hayes, motor industry analyst at Goldman Sachs in London.

"The problem for most car companies is that, unlike Daimler and Chrysler, they normally have huge overlaps with potential partners, making any combination extremely troublesome," Mr Hayes says.

When demand falters later in the cycle, mergers which seem inconceivable now may become inevitable. But with car sales buoyant in the US and Europe, the need to consolidate appears less urgent.

Nevertheless, the long-term pressures on the industry are not about to go away. Even where business is booming, margins are being squeezed by competition, notably from low-cost Asian cars.

For Europe's carmakers, high costs, low volumes and increased competition mean the focus of consolidation has shifted to deals between complementary mainstream and specialist brands.

In private, many carmakers are locked in almost permanent talks against a backdrop of chronic overcapacity, rising costs and cut-throat competition

DaimlerChrysler, which linked a German prestige marque with a US volume manufacturer, proved that a judicious marriage could offer many of the economies of scale of a merger of equals, without the acute social and political costs.

But with Daimler-Benz now betrothed, attention has switched to Volvo and BMW – the only other significant specialists that could broadly complement a mainstream marque.

Volvo's difficulties are most acute. With output of nearly 400,000 cars last year – one-tenth of Volkswagen, Europe's leader – the Swedish group has only a small volume of cars on which to spread the spiralling costs of product development, sales and marketing. And, unlike its bigger competitors, it cannot extract big price cuts from its suppliers, which account for up to 60 per cent of the cost of building a car.

BMW's position is stronger. It made about 700,000 vehicles last year, excluding its Rover subsidiary in the UK. Moreover, BMW margins on its pricey sports saloons remain the envy of the industry. Such profitability prompted Wolfgang Reitzle, the engineer credited with much of BMW's recent success, to announce in Detroit that 1998 was the best year in BMW's history.

But BMW's stellar results have been overshadowed by heavy losses at Rover, bought by the Germans in 1994. The UK subsidiary's losses last year are believed to have more than doubled to about DM500m ($299m), based on BMW's conservative accounting standards.

In Detroit this week, Mr Reitzle rejected suggestions BMW might need a long-term partner. "We have the critical mass in all important areas in our business," he said. BMW would "solve the problems at Rover as quickly as possible" and preserve its independence. But with almost 46 per cent of BMW's shares held by the Quandt family, some analysts believe BMW will one day have to forge an alliance. The Quandt family, they say, may not have deep enough pockets to finance the continued expansion of BMW, or it might decide to sell part of its holding to diversify its investments.

By contrast to BMW's fighting talk, Volvo has made no secret of its readiness to entertain suitors, confirmed by this week's investment banking appointment. The list of candidates include Volkswagen and Ford. But the most serious talks, under way for about six months, have been with Fiat of Italy.

A Fiat-Volvo link would be almost as elegant as Daimler-Chrysler. The two companies fit excellently in products and geography. And Mr Johansson is no stranger to Italian business culture, having worked for Electrolux, the Swedish white goods group which owns Italy's Zanussi.

But a straight sale of Volvo's car operations to VW or Ford, or a full scale merger with Fiat, would not be problem-free.

Volvo would earn a tidy sum if it sold its car division. It is less clear how the cash could be profitably employed. Volvo would, presumably, use the proceeds to further develop its truck, bus and construction equipment divisions. But its options there are limited. A marriage to Fiat, on the other hand, could be stormy if Nordic and Latin business temperaments were to clash. Volvo's predicament shows that complementarity alone may not guarantee a successful union.

The year ahead, therefore, is likely to see a great deal of wooing and matchmaking in the global car industry. And, like the temperature difference between the ice-bound Detroit River and the steamy exhibition centre on its banks, rumours of further consolidation will continue to blow hot and cold.

OBSERVER

Time to clip the hedge

It shouldn't take international financial experts long to get to grips with the problems arising from the near-collapse of Long Term Capital Management. The issues may be devilishly complex – but the people working on them know each other well enough. Steve Thieke of J.P.Morgan and Gerald Corrigan of Goldman Sachs were this week asked to lead the deliberations of a dozen large banks and investment houses.

Experienced hands, both. Never mind that Thieke used to work for Corrigan when he was president of the New York Federal Reserve. Meanwhile, Bill McDonough, Corrigan's successor in that post, is chairman of the Basle committee of banking supervisors, which is also grappling with the problem of how to control hedge fund exposures.

The only face missing is Ernie Patrikis, who left the New York Fed last year to join American International Group, the insurer. Still, with regulators trying to grapple with banking and insurance conglomerates, how long before he joins the party?

Capitol idea

Want to see history in the making? Then turn up early. There are roughly 700 seats in the gallery of the US Senate – but all but 50 will be filled by Washington insiders and journalists during the first impeachment trial of a US president for 131 years.

The rest are available free of charge on a first-come, first-served basis. Which probably means the longest queues in Washington since President Andrew Johnson faced the music in 1868.

Then, as now, the Senate authorities tried to keep order by using a ticketing system. But, by all accounts, the 19th century crowd didn't live up to the genteel reputation of the period. According to contemporary accounts thousands milled outside the chamber and fist-fights broke out as people jostled to get inside to see the show. Now isn't live television a wonderful thing?

Terry time

Lord Burns spent 18 years looking after Britain's finances as the top civil servant at the UK Treasury. Now, six months after leaving the most powerful department in Whitehall, he's taking care of his own. The man who was known as plain Sir Terry Burns until he picked up a peerage last year has joined the board of top life insurer Legal & General.

The non-executive appointment, expected to bring in a handy £30,000 a year in return for a couple of days work every month, is Lord Burns' first paid appointment since leaving the Treasury. Others are expected to follow. The former London Business School heavyweight hasn't been idle, though: he's already making music as a governor of the Royal Academy of Music and plays in a recorder consort, no less, with chums in the leafy London suburb of Ealing.

But while his years at the heart of government have passed, the man dubbed Teflon Terry (after he survived Britain's appalling economic performance in the early 1990s) has lost none of his discretion. Asked about recent upheavals at the Treasury, which he left only after an uneasy spell answering to Labour chancellor Gordon Brown, the 54-year-old won't be drawn. Though does Observer detect a hint of schadenfreude in the aside that he's been "watching from the sidelines with interest"?

Unbugged

So who's jittery about the millennium bug? It seems that fears of impending doom on the stroke of midnight come next New Year's Eve might be overstated, according to a new poll by NOP carried out for French insurance group Axa. Only 2 per cent of Europeans polled listed the bug as a source of concern when it comes to economic prospects.

The Netherlands, apparently, is slightly more worried than most of its neighbours; Italy, on the other hand, isn't remotely bothered. No-one in the land of La Dolce Vita thinks of it as a problem. Suppose only time will tell who's right.

Hard driving

Can it be a coincidence? In the week Hungary announced plans for a gun-toting corps of tax police, some bright spark has started selling armoured-plated BMWs in Budapest. So Magyars worried about attracting unwanted attention from the revenue squad can take refuge in their very own heavyweight motor.

The new 200-strong brigade of tax busters are meant to be chasing organised criminals. But there's a sneaking suspicion among ordinary citizens that they'll turn their attention to softer targets in order to meet their annual quota. Hence the interest in bullet-proof Beemers.

The only snag is that anyone buying a BMW from local entrepreneur Istvan Kincs will have to find a heavyweight Ft40m ($180,000) – including taxes, of course. That's more than the average Hungarian earns (officially) in a lifetime.

Spaced out

Where do space men park their spacecraft? On parking meteors.

The Financial Times

50 years ago

Mr. Marshall Resigns
Washington, Jan. 7. President Truman to-day announced the resignation of the Secretary of State, Mr. George Marshall, and appointed Mr. Dean Acheson, a former Under-Secretary of State, to succeed him. Mr. Marshall resigned for health reasons. Mr. Acheson's appointment guarantees a continuity of foreign policy. When he was Under-Secretary of State, he was most active in formulating the Marshall Plan, and the President re-emphasised to-day that those policies were his, Mr. Truman's policies.

New French Problems
Paris, Jan. 7. The French Government is now faced with strong demands for substantial new wage increases which are being pressed by all trades unions. If these claims are met, the inflationary process, now halted, would receive a fresh stimulus, but the alternative might well be a wave of serious social unrest. The wage claims are based on the recent rise in the cost of living, and also in rents, which are considerably increased in accordance with a new law. The unions are also asking for a return to collective bargaining, abolished during the war.

ECCLESIASTICAL

FINANCIAL TIMES

FRIDAY JANUARY 8 1999

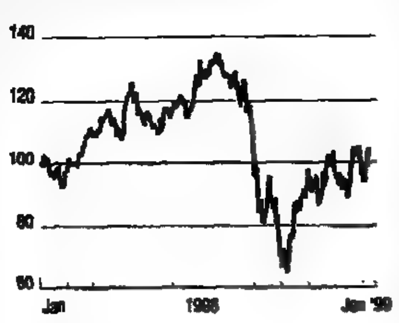
THE LEX COLUMN

Crisis, what crisis?

Looking at the latest US investment banking results, last autumn's financial crisis might never have existed. Morgan Stanley Dean Witter and Lehman Brothers have both turned in record profits for 1998, well above analysts' estimates. Morgan Stanley even produced record earnings in its fourth quarter, which spanned the rather ropy September to November period.

The speedy recovery of global markets and the continuing boom in merger and acquisition transactions has helped. But the banks have also shown they can control expenses in a downturn; Lehman's fourth-quarter revenues fell 35 per cent, but so did its compensation costs. And despite some high-profile trading losses, largely in Russia, most of Wall Street did a pretty good job in managing risk. This is particularly true of Morgan Stanley, which also benefits from a more resilient business mix, including credit cards and asset management. Much of this is already reflected in the stock prices. Merrill Lynch, Lehman and Morgan Stanley have all more than doubled since October. The latter is once again trading at 3½ times book value. That can only be justified by a bullish outlook for world markets. But if Morgan Stanley can produce a 23 per cent return on equity in a year like 1998, it may be time to rethink the cliché that an investment bank's earnings are necessarily volatile.

Morgan Stanley Dean Witter
Share price relative to the S&P Composite



Source: Datastream/ICV

Semiconductors

Silicon should be back in favour in 1999. After all, things could hardly get worse for certain semiconductor players – such as memory (D-Ram) chip manufacturers. Last year's bugbear, massive overcapacity, should diminish. Capital spending by D-Ram manufacturers plunged by up to 40 per cent in 1998, according to some estimates. No new D-Ram plant is expected short-term, while older manufacturing capacity should be taken out of commission. If the industry refrains from shooting itself in the foot – again – unit prices should stabilise at about $10. Not great, but high enough for the more efficient companies, such as Micron, to make profits.

Of course, this is not just about supply. Demand for personal computers also looks favourable. PC unit sales are expected to grow by around 15 per cent this year, and the manufacturers have tightened inventory systems to avoid a repeat of last year's glut. This means an easier ride for Intel, the microprocessor giant. But this year's challenge is increased competition at the lower end of the market from National Semiconductor and AMD. Intel is fighting back with high-performance low-end chips for the cheaper PCs. More conservative organisations would shrink from the potential cannibalisation to mid-market products that this could cause. But Intel has managed similar product transitions in the past. It should be able to do so again.

Kirch Group

What price a stake in Kirch, the private German media group? This week's reorganisation – which claimed to ring-fence Kirch's profitable media rights and commercial television business from its loss-making pay-TV activities – is unashamedly aimed at attracting strategic media investors. After all, over $1bn is needed to turn around the pay-TV businesses and prepare them as rapidly as possible for inclusion in the group's IPO plans, the best solution to the ageing Leo Kirch's succession concerns.

But what exactly will this unholy trinity of Rupert Murdoch's News Corporation, Silvio Berlusconi's Mediaset and Prince Al Waleed get for the $250m each has been invited to invest? Kirch's own assessment of its enterprise value, $13.5bn, of which only $1.7bn is reported to be net debt, needs to be taken with a pinch of salt. Valuing the media rights and commercial TV operations at $8bn certainly seems unjustifiably optimistic.

Furthermore, if Kirch is really this ungeared – which flies in the face of received opinion – why does it not simply raise the cash from banks rather than sell its own prized equity? One possible answer is that the establishment of an implied value for the group by the formation of a "noyan dur" – or core shareholder grouping – will help the IPO process. Fair enough, perhaps, but News Corp's shareholders should demand a lot more than the 3 per cent stake currently on offer in return.

Kellogg

Rarely has a company so squandered its inheritance. Carlos Gutierrez, Kellogg's new chief executive, will not need reminding that a decade ago the cereal maker had twice the US market share of its nearest rival and went virtually unchallenged internationally. Today it is neck-and-neck with General Mills at home, and suffering elsewhere at the hands of Cereal Partners Worldwide, a General Mills/Nestlé joint venture. Kellogg's 1998 profits will be lower than in 1992, while its stock has underperformed the US market by 45 per cent over the past year.

The group is taking corrective action. It has cut US staff 25 per cent to save $165m, reinvesting this in marketing. It is launching new products and adding calcium to others to appeal to health-conscious consumers. And the traditionally insular Kellogg at last seems prepared to hire outsiders and promote younger managers – Mr Gutierrez is only 45.

Even so, he may have to think more imaginatively. The US cereal market has shrunk 10 per cent in five years as people have switched to bagels and muffins. Meanwhile, powerful food retailers are increasing the pressure on producers. Consolidation is the obvious answer. With 39 per cent of the world market, Kellogg could not buy another cereal maker. But it could improve distribution and its clout with retailers by merging with a similar-sized food company. Nabisco, once fully demerged from RJR Nabisco, might make a neat fit.

Brazilian state suspends payments on $15.3bn debt

By Geoff Dyer in São Paulo

Brazil provoked a new round of nervousness in international financial markets yesterday after one of the country's largest state governments formally declared a moratorium on its R$18.5bn ($15.3bn) debt with the Brazilian federal government.

The announcement that Minas Gerais, the third most economically powerful state, had suspended interest payments for three months, rekindled fears that Brazil would not be able to implement a fiscal austerity plan agreed with the International Monetary Fund.

The plan was designed to stave off a currency crisis, which could have serious knock-on effects for markets worldwide.

Share prices in Brazil, Latin America's largest economy, had fallen 5.04 per cent by late yesterday afternoon. News of the stand-off also helped push the dollar lower and contributed to weaker prices on Wall Street yesterday after Wednesday's record close.

Analysts said the moratorium could create a serious crisis for the government of Fernando Henrique Cardoso if other states followed suit. However, some analysts said Itamar Franco, the governor of Minas and a former president, had made a misjudgement which would leave him politically isolated.

Minas is one of 24 of the 27 Brazilian states which have restructured around R$80bn of debt with the federal government. Many were on the verge of bankruptcy. Minas refinanced its debts over 30 years at an interest rate of about 7 per cent, well below the current overnight rate of 29 per cent.

Mr Franco, who was sworn in as governor on Friday, said Minas could not repay the debt because the state was in "financial chaos". He warned the federal government not to retaliate by withholding fiscal transfers to the state. "If these threats materialise, we will know how to respond," he said.

But the federal government maintained its firm stance against concessions to states. "Fernando Henrique will not accept impositions from anyone and will continue to abide by the law," said Pimenta da Veiga, the communications minister, following a meeting with Mr Cardoso.

However two large states, Rio de Janeiro and Rio Grande do Sul, have already called for their debts to be re-negotiated and have said they would consider withholding interest payments.

Mr Franco, who is a member of the Brazilian Democratic Movement (PMDB), which supports the government, has called a meeting of governors from opposition parties on January 18, to generate backing for his stance.

The government, which is trying to push through a R$28bn package of emergency budget cuts, needs the support of state governors for several of its proposals, including tax reform. It could also face problems in Congress if members of the PMDB or the Minas delegation, strongly favour Mr Franco.

Chase buys Brazilian bank, Page 20
Bonds, Page 26

Mandela in move to bring Lockerbie suspects to trial

By Robert Paston in Pretoria

Nelson Mandela, the retiring South African president, yesterday made a last ditch attempt to resolve the impasse over the extradition of Libyan suspects in the 1988 Lockerbie airline bombing.

Following talks at his official residence with Tony Blair, the British prime minister, Mr Mandela said they were "on the way to resolving all outstanding issues", which would also lead to the lifting of sanctions against Libya. The two heads of government have agreed that Mr Mandela's senior foreign affairs official, Jakes Gerwel, will fly to Tripoli with Prince Bandar, the Saudi ambassador to Washington, for a special meeting with Colonel Gadaffi, the Libyan leader.

Mr Blair has asked the United Nations Sanctions Committee for a special dispensation to allow the diplomats' aircraft to land in Tripoli.

He has accepted the necessity of reassuring Colonel Gadaffi that the UK and US have genuinely given in to the Libyan request for the two suspects in the bombing of a Pan-Am aircraft to be tried in a neutral third country, the Netherlands.

But a senior UK official said Mr Blair was not prepared to concede any further Libyan demands. He would not, for example, permit imprisonment of the two - Abdul Basset Ali al Megrahi and Leman Khalifa Fhimah - anywhere apart from Scotland, where the atrocity took place, if they were found guilty.

Mr Blair, in an open-air press conference, lavished praise on Mr Mandela, due to retire this year and likely to be replaced by his deputy, Thabo Mbeki. Mr Mandela represented "politics as it can and should be" and had been "a shining light" which would never be diminished.

On the second day of his South African visit, Mr Blair announced a 40 per cent increase in British aid to the country, lifting it to a total of £90m ($150m) over the coming three years. This would be spent on education, environmental projects and initiatives to promote public sector reform and democracy.

The two governments also signed a Declaration of Intent that British defence companies, that are expected to win defence contracts worth about £1bn from South Africa, would match this with significant industrial investment. "It's a way of reassuring the South Africans," said a senior British official.

Mr Blair's visit has prompted popular protest at the UK's involvement in the recent airstrikes on Iraq. Moslem demonstrators in Cape Town yesterday burnt the union flag and chanted "death to Tony Blair" before being dispersed by South African police firing stun grenades.

Mr Blair will today address the South African parliament in Cape Town, although much of his message will be directed at the UK, following the recent resignations of three senior members of his government.

He will say that his government is embarked on "the transformation of the country and its institutions" and is prepared to risk attacks from its traditional supporters.

Blair builds on ANC ties, Page 6

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Israeli prime minister Benjamin Netanyahu delivering a speech as his conservative Likud party launched its general election campaign

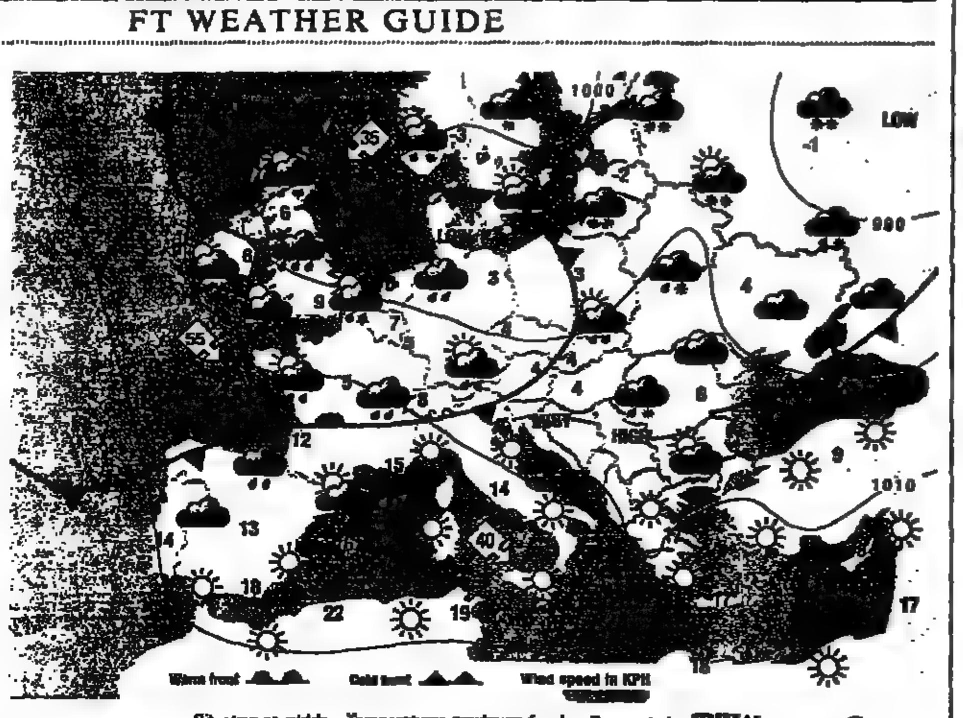
FT WEATHER GUIDE

Europe today

It will be very cold in Scandinavia, although in Denmark any snow will turn to rain. Other parts of southern Scandinavia will have significant snowfall, with snow showers to the north. Rain in north-west Europe will spread south-east across central areas. As the rain clears, it will brighten, but there will still be some sharp showers. The northern Iberian peninsula will have showers, but the south will be dry and warm. Fog in south-eastern areas may linger. Most of the Mediterranean will have sunshine. Eastern Europe will have outbreaks of snow.

Five-day forecast

Rain will spread across most of the Iberian peninsula and the Mediterranean. It will turn colder in the north-west with snow. Scandinavia and the north-east will remain very cold and wintry with further snow. The south-east will have spells of rain, with snow over higher ground.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Cloudy	27
Accra	Sun	31
Algiers	Sun	22
Amsterdam	Rain	6
Athens	Sun	17
Atlanta	Fair	18
B. Aires	Fair	31
B.ham	Rain	6
Bangkok	Fair	32
Barcelona	Sun	15
Beijing	Sun	-1
Belfast	Shower	6
Belgrade	fog	7
Berlin	Rain	3
Bermuda	Shower	21
Bogota	Fair	20
Bombay	Sun	30
Brussels	Rain	7
Budapest	Cloudy	[illegible]
C.hagen	Rain	4
Cairo	Fair	18
Caracas	Sun	29
Cardiff	Shower	7
Casablanca	Fair	19
Chicago	Snow	-5
Cologne	Rain	7
Dakar	Sun	24
Dallas	Fair	14
Delhi	Sun	19
Dubai	Cloudy	27
Dublin	Shower	6
Dubrovnik	Sun	12
Edinburgh	Shower	6
Faro	Sun	19
Frankfurt	Rain	7
Geneva	Rain	8
Gibraltar	Sun	19
Glasgow	Shower	6
Hamburg	Rain	6
Helsinki	Cloudy	-8
Hong Kong	Sun	20
Honolulu	Fair	27
Istanbul	Sun	12
Jakarta	Thunder	30
Jersey	Shower	10
Johannesburg	Thunder	25
Karachi	Sun	26
Kuwait	Rain	24
L. Angeles	Sun	22
Las Palmas	Shower	21
Lima	Sun	26
Lisbon	Rain	14
London	Shower	9
Lux.bourg	Shower	5
Lyon	Rain	11
Madeira	Cloudy	20
Madrid	Fair	13
Majorca	Sun	16
Malta	Sun	18
Manchester	Shower	7
Manila	Shower	30
Melbourne	Shower	22
Mexico City	Fair	24
Miami	Fair	25
Milan	Fair	7
Montreal	Snow	-12
Moscow	Snow	-7
Munich	Shower	8
Nairobi	Sun	28
Naples	Fair	14
Nassau	Fair	25
New York	[illegible]	2
Nice	Sun	15
Nicosia	Sun	18
Oslo	Snow	-3
Paris	Shower	9
Perth	Fair	34
Prague	Rain	4
Rangoon	Sun	31
Reykjavik	Snow	0
Rio	Fair	31
Rome	Fair	14
S. Frsco	Sun	15
Seoul	Snow	-3
Singapore	[illegible]	31
Stockholm	Snow	-4
Strasbourg	Rain	9
Sydney	Fair	28
Tangier	Sun	18
Tel Aviv	Cloudy	17
Tokyo	Sun	8
Toronto	Snow	[illegible]
Vancouver	Shower	7
Venice	Cloudy	8
Vienna	Shower	4
Warsaw	Sleet	5
Washington	Snow	[illegible]
Wellington	Fair	18
Winnipeg	Fair	-6
Zurich	Rain	7

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Corporate bond defaults surge

The number of US companies defaulting on their bond obligations almost doubled in 1998, as total worldwide bond defaults surged to a five-year peak of $29.3bn, up from just $9.3bn in 1997, according to Moody's Investor Service, the rating agency. **Page 21**

'Local' traders to receive Griffin cash

Grant Thornton, the accounting firm winding up the Griffin Trading Company, did not reveal how much money had been frozen after its collapse, but said "local" traders should receive some payment in two months. **Page 23**

Capespan to provide all-year service

Capespan, the fruit marketing group created by the merger of South African fruit groups Unifruco and Outspan International, will be among the world's top five, will benefit from lower costs and will be able to offer a year-round service to big buyers. **Commodities, Page 28**

WaMu expected to close branches

Washington Mutual, now the largest thrift in its sector, now faces the task of making last year's acquisitions of HF Ahmanson and Great Western pay off in the long term. Widespread branch closures seem likely. **Page 21**

Argentine mine faces test of success

The future of Argentine mining may rest on the $1.2bn Bajo de la Alumbrera open-cast mine, the country's flagship mining project. But the mine, which has been in production for a year, faces depressed metals prices and budgetary difficulties. **Commodities, Page 28**

NTPC expected to issue global bond

State-owned National Thermal Power Corporation, India's largest power generator, is expected to tap the international capital market soon with a bond issue, the first by an Indian corporate in nearly 18 months. The move would be seen as an indicator of interest in Indian debt, and might persuade the government of Atal Behari Vajpayee (above) that it is time to issue a debut sovereign bond. **Capital Markets, Page 26**

Lisbon benefits from joining euro

Since joining the euro, Portugal's BVL 30 index has gained 10 per cent. As investors switch from domestically orientated portfolios to euro-based benchmarks and from bonds to equities, Lisbon could see a $9bn inflow of funds in 1999. **Emerging Market Focus, Page 38**

Statoil in talks with Polish group

Statoil, Norway's state-owned oil company, is in talks to sell gas to the Polish Oil and Gas Company. The deal, which could lead to the building of a $1bn pipeline, would be its first gas sale in the Polish market. **Commodities, Page 28**

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MARKET STATISTICS

Ford seeks to cut $1bn in costs

Carmaker committed to boosting investor returns through dividends and share price rises

By Nikki Tait in Chicago

Ford Motor Company, the second largest of the US car and truck makers, is aiming to squeeze a further $1bn out of the group's cost base in 1999.

Relentless cost-cutting – from raw materials, manufacturing processes, suppliers, and labour – has been a major factor in Ford's performance recently, and although other domestic rivals have pursued a similar course, Ford has generally been seen as the most aggressive player on costs.

Its new 1999 target matches the objective set both last year and in 1997. However, Ford has already easily outstripped those goals, saving around $1.9bn in the first nine months of 1998 and $3bn in the previous 12 months.

Disclosing the company's financial targets for 1999 to analysts in Detroit yesterday, the company also said that it was setting a new objective of providing a total shareholder return – dividends plus share price appreciation – in the top quartile of the S&P 500 group of companies "over time".

This broadly matches some of the compensation-related management incentives introduced last year, although these operate with a more precise three-year target period.

Meanwhile, in its big domestic market, Ford said it would again aim to achieve an after-tax return on sales that tops 5 per cent. Like the cost-saving objective, this mirrors the goal set for 1998 – which Ford was comfortably on track to meet at the nine-month stage, when it was posting a 5.7 per cent figure. Ford has acknowledged that the US auto market may lose a little steam in the current year, but is still officially forecasting industrywide sales of more than 15m units, compared with 1998's 15.6m.

However, the company's 1999 goals for its main international operations are less precise and demanding. The objective in the highly competitive European market will just be to "grow earnings". Last year, Ford said its aim was to make a profit – something it was managing to do in the first nine months of 1998, despite a loss in the third quarter.

In South America, meanwhile, Ford is talking only of "improving" operating results. Here, it had hoped to break even in 1998, but had sunk into the red, to the tune of $75m, at the nine-month stage.

One of the few businesses to face a more challenging target will be Visteon, the parts supply business, which Ford may seek to spin off at some stage, though probably not in 1999. It is being asked to add at least $2bn of new business and boost earnings growth. Last year's target was $1.5bn, and by the nine-month stage, Visteon had managed $1.8bn.

Ford has also set a capital spending target for the group overall of $8.5bn this year, although this includes capitalised software. In the first nine months of 1998, the figure was running at $5.7bn.

Fast and loose in Detroit, Page 17
Size is the issue, Page 20

Shares in Volvo rise 5% on car arm move

By Tim Burt in Stockholm, Paul Betts in Milan and William Lewis in New York

Shares in Volvo, the Swedish automotive group, jumped 5 per cent yesterday after the disclosure that it had hired a US investment bank to explore a possible sale or merger of its car division, its largest segment.

Investors viewed the hiring of the investment bank – said by people close to the company to be J. P. Morgan – as the clearest sign to date that Volvo was seriously considering strategic options on the future of its car arm.

J. P. Morgan and Volvo yesterday declined to comment.

The US investment bank has a long relationship with Volvo, for which it has handled a number of transactions – most recently placement of the Swedish group's remaining shares in Pharmacia & Upjohn, the Swedish-US drugs group.

Investment bankers in Stockholm said J. P. Morgan's appointment, with a sell-side mandate for Volvo Cars, indicated that talks with potential bidders such as Ford of the US and Fiat of Italy had entered a more formal phase.

"This means the negotiations have come far enough for Volvo to ask the bank to seriously investigate a deal," said one corporate finance adviser, who declined to be named.

A person close to Volvo warned that any deal was some way from being announced and that "this frenzy of speculation is hardly helping matters".

Volvo's shares rose Skr11 to Skr222.50, compounding a rise of 14 per cent this week. Shares in Fiat, tipped as a likely bidder for Volvo Cars, fell by 9.2 cents to €3.254.

Although the Turin-based group has declined to comment on the latest merger speculation, Paolo Cantarella, Fiat chief executive, confirmed this week that the group had no intention of standing still following last year's Daimler-Benz-Chrysler merger. Fiat intended to enter into any eventual alliance from a position of strength, playing a leading role and not acting as a sleeping partner.

Industry analysts, however, warned that any talks could founder on how to preserve the Volvo brand.

Detroit rumour mill, Page 17
Size is the issue, Page 20

Morgan Stanley reports record earnings

By Tracy Corrigan in New York

Morgan Stanley Dean Witter, which yesterday reported record fourth-quarter earnings, is "seriously considering" opening half a dozen retail brokerage outlets in Japan, according to Bob Scott, the company's finance director.

The financial services group also plans to roll out its Discover credit card, which accounts for about 20 per cent of earnings, in one or two overseas markets this year.

The UK is likely to be a target market. The new head of Discover Financial Services, David Nelms, was previously vice chairman of MBNA, the US credit card company, where he headed its successful entry into the UK market in 1994.

Morgan Stanley's entry into the Japanese retail market follows forays into Japan by a handful of US financial institutions last year, including Merrill Lynch, which bought the now defunct Yamaichi Securities' brokerage network, and Citigroup's Salomon Smith Barney, which has partnered Nikko Securities. Last month, PaineWebber announced a tie-up with Yasuda Mutual Life Insurance.

Morgan Stanley considered opportunities to acquire or partner Japanese firms, including Daiwa Securities, according to people familiar with the firm, but has decided that it is more attractive to attempt to target profitable segments of the brokerage market.

Many Japanese brokerage firms operate vast networks but only have about half a dozen highly profitable brokerage offices.

Morgan Stanley also feels it will be better placed to assess future acquisition opportunities if it has a foothold in the market, according to Mr Scott.

Morgan Stanley and Lehman Brothers yesterday both reported record earnings for the year and beat analysts' expectations for the fourth quarter.

Morgan Stanley's fourth-quarter net operating income of $879m, after a $345m after tax gain from the sale of businesses, was 9 per cent up on last year, while diluted earnings per share of $1.49 were up 15 per cent. Return on equity was 27 per cent for the quarter and 22.7 per cent for the year.

"What we have learnt about Morgan Stanley is that the world's financial markets can collapse and these guys can still earn returns of more than 20 per cent," said Sallie Krawcheck, financial services analyst at Sanford C Bernstein.

She noted that Morgan Stanley's broad business mix – which includes US brokerage and credit cards as well as investment banking – and tight risk management were key factors in the firm's strong performance.

Lehman reported net income of $74m for the quarter, down from $185m a year ago, and a return on equity of 5.6 per cent, compared with 18.3 per cent a year ago.

Lehman's earnings and revenues of $4.1bn and $786m for the year both set new records. In the fourth quarter, the firm's fixed income business was profitable overall, despite market turmoil, according to chief financial officer John Cecil.

Lex, Page 18

Toys R Us reported heavy declines in December sales, highlighting the weak state of the toy and department store sectors. Retailers had expected one of their best Christmases, but sales of winter clothes were hit when much of the US found itself basking in warm weather. Page 21 AP

INFORMAL MOVE PROMPTED BY SPEED OF CONSOLIDATION IN WIRELESS BUSINESS

AirTouch approached by MCI

By Richard Waters and William Lewis in New York

MCI WorldCom is understood to have made an informal approach to AirTouch to express its interest in making a bid for the US wireless carrier, already the subject of two takeover offers.

The move by MCI is the latest sign of the widespread interest touched off in the telecommunications industry by the two recent offers.

Executives from Vodafone, the UK-based carrier, met AirTouch officials for the first time yesterday to discuss their own stock-and-cash offer, worth about $55bn, while Bell Atlantic, the US local carrier, has offered about $45bn in stock.

Any bid from MCI WorldCom would mark a shift in strategy for Bernie Ebbers, the company's chief executive. Mr Ebbers has said that wireless is a low priority for his company, at least for the next few years. In addition, his main focus on providing services to large international business customers would not make AirTouch's largely consumer, regional business a natural fit.

However, the scarcity of big wireless companies, and the speed of consolidation in the wireless business both in the US and Europe, has at least prompted MCI WorldCom to run its slide-rule over the company.

Like Vodafone, MCI WorldCom has a highly-valued share to use as a takeover currency in any bidding war. Mr Ebbers has already proved himself willing to step in opportunistically in such situations, having snatched long-distance carrier MCI from under the noses of rival bidder British Telecommunications.

"It stands to reason he would take a look [at AirTouch]," one person close to the situation said yesterday.

Other large US and European telecoms companies are also believed to have cast an eye over both AirTouch and Vodafone, though none is known to have approached either company.

Any rival bidders, however, would have to compete with Vodafone's attempted knock-out bid for AirTouch, which values the company at a 50 per cent premium over its price a month ago. "It isn't exactly cheap," said one of many investment bankers who have spent this week attempting to flush out a rival offer for the San Francisco-based company.

Vodafone itself is the constant subject of takeover interest from bigger wireline carriers, and this week's events have intensified that interest, the banker added.

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German bonds set for euro-zone benchmark status

By Edward Luce in London and Samer Iskandar in Paris

German government bonds appear to be becoming the benchmarks for the euro-zone, in preference to their French counterparts.

Demand for the future in the 10-year German government bond – a key element of the battle for supremacy – has been more than ten times the level of turnover in the future on the 10-year French government bond this week.

Turnover in the German future was 444,000 contracts against just 28,000 for the French future yesterday. Bankers attribute much of the bund's success to the preference by US and Japanese borrowers for the German market.

This was confirmed in the strong non-European demand for the Bundesbank's €7.8bn ($6.23bn) 10-year bond auction on Wednesday – its first in the single currency. "Japanese investors clearly see the German bond market as the benchmark for the euro," said Sally Wilkinson, an economist at Daiwa Europe.

Demand for German bonds is likely to be boosted by the removal of investment restrictions on large French insurance companies. Before the creation of the euro, they had to invest 80 per cent of their assets in the domestic market.

French bankers yesterday conceded the success of the bund market over the French OAT market. Ten-year OATs were yielding 9 basis points more than equivalent bunds after the French government bond auction yesterday. For most of the past three years, they traded at a lower yield than bunds. The spread does not appear to reflect any genuine difference in creditworthiness, as both countries have AAA ratings.

"It is now clear the reference for 10-year yields in Europe is going to be the bund," said an executive at a French bank with a presence in Germany. "The question for the future is: will they stop at the 10-year?"

Until recently, the French monetary authorities thought reforms of the domestic bond market, which had been modelled on the US Treasury market, would more than offset France's handicap relative to Germany in terms of total size.

The reforms included a sophisticated bond repurchase facility and the introduction last year of inflation-linked – or indexed – bonds. In addition, the French Treasury concentrated bond issues in unusual maturities including three-year and seven-year bonds in the hope of offering features that were absent from the German market.

Bankers dismissed the chances of the emergence of a combined German/French euro-denominated yield curve. "Traders need a unified reference," said the French banker.

One consolation for France is that Matif, its derivatives exchange, appears to be beating its German counterpart, Eurex, in the battle for supremacy on the euro-zone's interest rate future, known as the euribor contract.

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Bonds, Page 25

te suspends $15.3bn deb
ove to bring pects to trial
or your €-Success

CARMAKING FRENCH GROUP POISED TO OVERHAUL VOLKSWAGEN AS THE CONTINENT'S BEST-SELLING BRAND

Renault set to become European leader

By Samer Iskandar in Paris

Renault, the partly privatised French automobile group, is set to overtake Germany's Volkswagen to become Europe's best-selling car brand for the first time in 15 years, according to preliminary 1998 sales figures.

The figures should comfort Renault, which has set itself an ambitious target of doubling its global sales to 4m by 2010.

François Hinfray, sales director, said yesterday Renault had sold a record 2.13m vehicles worldwide last year, up 15.8 per cent from 1997. In western Europe, the company controlled 11 per cent of the market, up one percentage point from the previous year and slightly ahead of VW's 10.8 per cent.

Renault recently forecast that net profits for 1998 would be "significantly higher" than 1997's FFr5.43bn (€828m, $970m). First-half net profits were FFr4.44bn, almost three times the FFr1.67bn figure for the first half of 1997.

Renault said its strong sales performance was partly attributable to the success of its Mégane medium-sized range, whose sales rose more than 20 per cent, making it Europe's second most popular model, up from seventh position in 1997. The launch in March of the new Clio II hatchback also helped, as did design facelifts to the Twingo city car and the upper-medium-sized Laguna sedan.

Renault was optimistic that last year's favourable market conditions in France signalled a turnround from the previous year. In 1997, sales were slow in the French market after the removal of government-sponsored incentives which had bolstered the sector over the previous two years.

Between 1995 and 1997, successive governments offered cash payments to owners who scrapped old cars to buy new ones. Potential car buyers postponed their purchases when the scheme was halted in 1997, in the hope it might be revived in some form.

Market conditions were favourable in most European countries, where economic growth was recovering, Renault said. Notable exceptions were the UK, where economic activity in general slowed in the second half, and Italy, where government incentives similar to the French schemes ended.

Commercial vehicles showed the best performance, with sales rising 26 per cent, compared with 14.5 per cent for private cars.

The emerging markets crisis, while taking its toll on Asian sales, did not affect sales in Russia, which grew 25 per cent to 2,500. North Africa was also a high-growth area, with sales up 15 per cent in Morocco and 60 per cent in Egypt.

Size is the issue as rivals eye Volvo car division

Ford and Fiat may bid for Swedish group, writes **Tim Burt**

Leif Johansson, Volvo chief executive, returned to work this week to find that the share price of the Swedish automotive group had jumped more than 20 per cent in his absence.

The rise in the shares has been fuelled by sustained speculation that the company – arguably Sweden's most prestigious industrial icon – could be the target of a takeover bid or merger proposal from one of its larger global rivals. Ford of the US and Italy's Fiat have emerged as the most touted bidders, although both have distanced themselves publicly from an outright bid.

This week, it emerged that a leading US investment bank had received a "sell-side" mandate covering Volvo's car division, its largest business. The mandate – under which the bank would receive only a nominal fee if it failed to find a buyer – appeared to indicate for the first time that Volvo would consider an approach leading to a new ownership structure for Volvo Cars.

"Ford is heavily courting Volvo and many people on the cars side are very interested in that," said one investment banker yesterday. "But there are a number of other parties floating around."

For Volvo, seeking a partner or possible buyer is an admission that in the medium term it might not be able to fund new model developments from its resources. It produces less than 400,000 cars a year and has acknowledged it cannot become a volume manufacturer organically.

But the decision to appoint an investment bank to explore a transaction involving only the car division raises more questions than it answers. The industrial logic is clear for Ford or Fiat, but less so for Volvo. For the US carmaker, Volvo cars would fit neatly into its European portfolio between its UK, German and Spanish-produced models at the lower end of the market and Jaguar, its UK premium brand, at the top.

For Fiat, Volvo would offer a useful foothold in North America and greatly strengthen its presence in northern Europe.

Italian car industry analysts said yesterday that Volvo would be a good fit for the Italian group, as Fiat is strong in small cars but weak in the upper segment of the market. An alliance would enable the Italian group to return to the US market, where it is present only through its luxury sports car marques: the US is Ferrari's biggest single market, accounting for about 25 per cent of Ferrari output.

Volvo's truck unit is also considered interesting for Fiat and its Iveco industrial vehicles subsidiary.

A sale of the car division to either Ford or Fiat, however, would send shockwaves through Swedish industry and almost certainly provoke opposition from Volvo's powerful trades unions.

That would force Mr Johansson to justify why Volvo needed to scale back its presence or possibly withdraw altogether from cars. He will certainly face some tough questioning at next month's full-year results presentation to clarify the company's strategy.

If he is considering an outright sale, the chief executive will come under pressure to explain how he intends to use the estimated SKr40bn-SKr45bn ($5.05bn-$5.68bn) raised from such a disposal. For tax reasons, it would be difficult to return the cash to shareholders – especially at the price of withdrawing from a profitable business.

The other, more credible, alternative is that Volvo is considering a two-step transaction that would use the cash to bolster its position in trucks or construction equipment, both higher-margin businesses than cars.

Many analysts believe Volvo could use cash and debt to bid for a rival truck manufacturer – such as Paccar of the US, which would strengthen its North American presence and consolidate Daf, Paccar's European subsidiary, into its portfolio. On the construction equipment side, it could use the money for another transaction in south-east Asia, where it spent $572m last year on the construction equipment arm of South Korea's Samsung Heavy Industries.

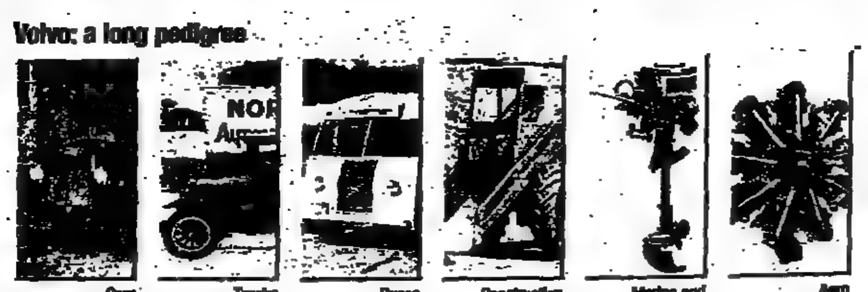
But a reduced presence in cars would be a bitter pill to swallow for Volvo investors in Sweden, many of whom regard it as a badge to preserve – particularly following the abortive merger with Renault of France in 1993. It would be easier to persuade investors to support a partial sale or even asset swap involving Volvo cars if it preserved the "Swedishness" of the brand, and delivered synergy savings from shared components and dealerships.

Mr Johansson has proved less sentimental about Volvo than some of his predecessors. Since his appointment almost two years ago, he has embarked on a hefty cost-cutting programme – last month vowing to cut 5,300 jobs or 7 per cent of the workforce – and made clear that no business will be retained for nostalgic reasons. But a decision to withdraw from cars would be regarded in Sweden as throwing nostalgia out of the window. Even from a financial perspective, it could prove hard to sell to investors – particularly as car profits could prove vital as truck arms near their cyclical peak.

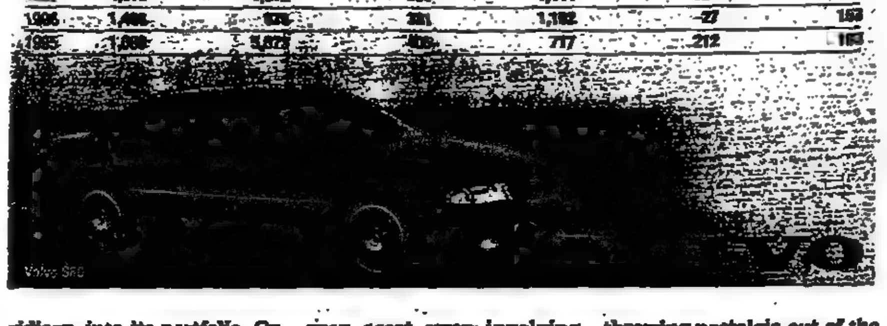
Nevertheless, signs of slackening growth in Europe, thin margins and falling demand in Asia and Latin America could be all the justification Mr Johansson needs for a deal – especially if it preserves the Volvo name and comes at a hefty premium to sweeten investors' fears.

Additional reporting by Paul Betts in Milan

Volvo: a long pedigree



	Cars	Trucks	Buses	Construction equipment	Marine and Industrial engines	Aero
Net sales (SKr m)						
1997	98,453	58,849	10,582	16,758	4,468	7,476
1996	83,589	44,275	8,527	12,894	3,885	4,142
1995	83,348	51,027	7,686	8,916	3,678	3,780
Operating profit/loss (SKr m)						
1997	4,510	1,812	558	1,444	181	472
1996	1,495	[illegible]	331	1,182	-27	153
1995	1,889	3,873	405	717	212	163



Skandia lifts its stake in Pohjola

By Tim Burt in Stockholm

Skandia, Sweden's largest insurer, yesterday significantly lifted its holding in the Finnish insurance group Pohjola after buying a 19.7 per cent equity stake from MeritaNordbanken, the Swedish-Finnish bank.

The Swedish insurer is understood to have paid FM1.4bn-FM1.5bn (€235m-€252m, $275m-$295m) for the stake, including 23.6 per cent of Pohjola's voting rights.

By acquiring MeritaNordbanken's stake in the Finnish insurer, Skandia will lift its holding in Pohjola to 32.5 per cent of the votes and 23.6 per cent of the equity.

Skandia said the acquisition would enable it to take a more active role in Pohjola's future strategy – although it declined to say whether the move could lead to an outright bid.

Lars-Erick Petersson, Skandia chief executive, said: "This should be viewed against a background of the future restructuring of the European insurance industry, which will be intensified."

Skandia, a long-time shareholder in Pohjola, described the deal as further evidence of its determination to become the Nordic region's leading insurer. The strategic co-operation between the two is expected to concentrate on non-life products.

Pohjola welcomed Skandia's increased stake, describing the Swedish insurer as "a long-term and serious owner".

The move follows MeritaNordbanken's decision to dispose of non-core holdings, including commercial property assets and investments to concentrate on banking services.

The bank said yesterday the disposal would lead to a one-off gain of FM675m in its 1999 results. The announcement came after the Helsinki market closed. In Stockholm, Skandia's shares closed down SKr3.50 at SKr123.50.

STOCK MARKETS INVESTORS CHOOSE LARGE, LIQUID COMPANIES AFTER CURRENCY LAUNCH

Big groups favoured since euro

By Jane Martinson, Investment Correspondent

Investors in European stock markets have favoured the largest, most liquid companies since Monday's launch of the euro, a trend which could have a significant impact on share prices and the fund-management industry.

New fund flows have particularly benefited large companies which are included in all 32 European indices offered by the leading index providers this week, as fund managers appear to have hedged their bets before the emergence of a leading European benchmark index.

Merrill Lynch, the US investment bank, has identified 28 companies which form part of the 32 indices designed by FTSE International, Dow Jones and Morgan Stanley Capital International. These 28 companies together have outperformed broader European indices by 3 percentage points since Monday.

In the four trading days since the launch of the single currency, the 28, which include DaimlerChrysler, Aegon and Bayer, returned 7.5 per cent in euro terms, compared with 5.6 per cent for the DJ Stoxx European index of 635 companies.

Such figures provide preliminary evidence to support the argument that the euro will provoke a flight to quality for investors which are switching to pan-European investing from a previously restricted domestic model.

This argument suggests that a Spanish investor considering a wholesale move into pan-European equities, for example, is more likely to favour companies he has already heard of and which are easy to move money into and out of.

This preference is accentuated by low inflationary conditions, which have tended to favour larger, global companies over the past two years in developed markets.

Bryan Allworthy, European equity strategist at Merrill Lynch, said this week's move suggested that investors "could not afford to ignore the big, blue-chip stocks", especially before one European benchmark emerges as the main index for performance measurement.

Active fund managers who tend to pick smaller companies on valuation grounds worry that the trend towards big companies will be accentuated by index-tracking fund managers chasing the outperformers.

Rob Sargent, European fund manager at Morgan Stanley Dean Witter, said yesterday: "What we are seeing could turn into a self-fulfilling situation and that's the danger."

The trend towards large European companies has been noticeable for several months as investors have started to shift funds out of domestic stocks in the run-up to the launch of the single currency. The increased activity over the past week as new money flows into the market has merely accentuated the trend.

Top 12 companies in all 32 European indices

Name	Sector	Market Cap (€ m)
Royal Dutch	Oils	98,566
DaimlerChrysler	Autos	83,285
Allianz	Insurance	77,733
Aegon	Life assurance	61,657
ING	Insurance	48,581
Unilever	Food production	46,455
ENI	Oils	44,978
Axa	Life assurance	41,465
L'Oréal	Health care	40,665
Mannesmann	Engineering	38,580
Telecom Italia	Telecoms	38,556
Generali	Insurance	36,393

Source: Merrill Lynch * Historical data translated into euros using locked-in rate of Dec 12 1998

Siemens to raise up to DM350m

By Tony Barber in Frankfurt

Siemens, the German industrial conglomerate, announced yesterday that it planned to raise its share capital by up to DM350m (€179m, $210m) as part of a broader effort to refocus its business strategy and improve its competitiveness and flexibility.

The Munich-based group said it would ask shareholders at its annual meeting next month to approve an increase in its basic nominal share capital of up to DM350m by February 1, 2004. Up to 70m new-preferred shares would be issued.

Shareholders approved a similar capital increase of DM150m at last year's annual meeting, but the company said this sum might not be sufficient to finance new business initiatives by means of equity swaps.

"Acquisitions and involvement in other companies to secure competitiveness are taking on ever-bigger dimensions," Siemens said. "They can often be financed only by the use of shares as a currency of acquisition. There may be cases in which the capital approved in 1998 is not enough."

The company, which makes products ranging from trains to light bulbs, is in the midst of an ambitious restructuring plan which involves the divestment of about one-seventh of its operations, including its loss-making semiconductor unit. Its four core divisions are to consist of industry, information and communications, rail systems and power generation.

Heinrich von Pierer, chief executive, said last November that Siemens intended to show shareholders that it was now focused on profitability. The company's pre-tax profit fell by 2.8 per cent in the latest fiscal year to September 30 to DM3.44bn, largely because of losses in the semiconductor and rail technology units.

Chase in Brazilian bank buy

By John Barham in São Paulo

Chase Manhattan, the US bank, yesterday announced it had taken over one of Brazil's few remaining independent investment banks, just as the country enters a severe recession brought on by a slide in its international reserves.

Chase said it bought São Paulo-based Banco Patrimônio for an undisclosed amount after the Brazilian bank's joint venture with Salomon Brothers Smith Barney unravelled last year following the merger of its parent group with Citicorp, which already has a strong presence in Brazil.

Patrick Morin, president of Chase's Brazilian arm, said: "The beauty of this operation is that both [banks] are very complementary. The aim is to incorporate both teams at Chase and become market leaders."

Jair Ribeiro, Patrimônio's president, said that in spite of Brazil's growing difficulties, his bank had a good year in 1998, with a 30 per cent return on equity of R$85m ($70.3m), better than Chase's return of 25 per cent.

However, a Patrimônio executive said that rather than being forced into a distress sale, the bank fell into Chase's arms owing to a lack of suitable suitors willing to replace Salomon, which previously held 50 per cent of Patrimônio.

Eduardo Guimarães, banking analyst at Banco Bozano Simonsen, said: "Patrimônio was desperate to find a partner with a US connection, but there was nobody left except Chase. This deal may signal that Chase, which was very strong in Brazil 15-20 years ago is planning to grow, possibly into retail banking."

Patrimônio, which advised the government in last year's $19bn privatisation of Telebras, the country's telephone network, had strong franchises in mergers and acquisitions, asset management and equity trading. But analysts say the departure of Salomon meant profits this year would slide by more than two-thirds.

Patrimônio has now ceased to exist as a separate entity, although Chase may use its well-respected brand name as a marketing tool.

Neither side would reveal terms of the deal, except to comment that all of Patrimônio's assets, senior staff and client list are being absorbed by Chase. One analyst said Chase may have paid over $300m.

Mr Ribeiro, 39, one of Brazil's brightest young investment bankers and one of Patrimônio's founding partners, will become superintendent director at Chase in Brazil.

The sale leaves *Rio de Janeiro's* Banco Bozano Simonsen as Brazil's only significant independent investment bank. Last year, the partners of Banco Garantia, a São Paulo investment bank, were forced to sell to Credit Suisse First Boston after an interest rate rise in 1997 eroded its equity.

However, most of Garantia's partners now run the Brazilian operations of CSFB, which previously had only a limited role in the country.

NEWS DIGEST

STEEL

Bethlehem to shut some Washington operations

Bethlehem Steel, one of the largest integrated steelmakers in the US, is to shut down the stainless sheet and strip operations of Washington Steel, which it acquired as part of last year's $740m purchase of Lukens.

The closure will mean that about 340 jobs are lost in Washington and another 200 at Washington Steel's Massillon works in Ohio. Bethlehem said it had notified local union representatives and planned to cease operations by the end of the first quarter.

The company blamed the shutdowns partly on conditions in the US steel industry, where local manufacturers have been battling a wave of cheap imports for the past six months. It said it was taking yesterday's action "due to losses being sustained, which have been particularly affected by the unprecedented levels of unfairly traded foreign steel imports". **Nikki Tait, Chicago**

LUXURY GOODS

LVMH to decide on Gucci bid

Bernard Arnault, chairman of LVMH, the French luxury goods group, is expected today to make a statement clarifying whether or not he plans to bid for control of Gucci, the Italian fashion company.

LVMH shocked Gucci's management by disclosing on Wednesday that it had secretly acquired more than 5 per cent of the Italian company's equity. Gucci's shares rose by €2.2, or 4 per cent, to €57.6 yesterday on bid hopes (thereby valuing the company at €3.53bn ($4.13bn)) having risen by 19 per cent when the news broke on Wednesday. LVMH's shares also rose, fuelled by speculation that Mr Arnault might sell all or part of its stake in Diageo, the drinks group from which he resigned as a director last month, to finance a bid for control of Gucci. Having gained 7 per cent on Wednesday, LVMH's shares were up €5.0, or 2.5 per cent, at €205 yesterday. **Alice Rawsthorn**

GOLD

Avgold to develop mine

Avgold, the South African gold company controlled by Anglovaal Mining, has secured financing to develop its new Target mine in the Free State after months of negotiations that were dogged by the low price of gold. It said yesterday that Chase Manhattan and Warburg Dillon Read had jointly underwritten a four-year syndicated loan of $100m.

In addition, Avgold has mandated the two institutions to arrange a revolving facility in rand worth $30m. The company said the $130m would be enough to develop Target to full production. The final loan documents are expected to be signed in March.

Production at Target is scheduled to begin in November 1999, with output increasing to 330,000 ounces of gold a year by early 2002 at an average yield of more than 10 grammes a tonne. Avgold said yesterday that the cost of production would be "well below $200 an ounce". **Victor Mallet, Johannesburg**

EGYPT

Mobile operator exceeds target

Egypt's leading mobile telephone operator has almost doubled its number of subscribers in six months, and exceeded its 1997 year-end target by 7 per cent, the company said yesterday.

Mobinil, which was formed with the sale of the state-owned mobile network to a private consortium led by local industrial group Orascom in partnership with France Telecom and other companies, saw a 93 per cent rise in subscriptions. It has 159,850 subscribers, up from 83,000 at the beginning of last June.

Analysts at the Cairo securities firm EFG-Hermes predict the company will have 320,000 subscribers by the end of this year. **Mark Huband, Cairo**

HONG KONG

Rumours buoy conglomerate

Shares in Jardine Matheson rose sharply yesterday as rumours that Li Ka-shing, the property magnate, was seeking to raise his stake in the Hong Kong based conglomerate swept through the market.

Mr Li, who controls Cheung Kong, the property developer, has built up stakes of around 4 per cent in Jardine Matheson and Hongkong Land, its property arm. His companies dismissed the rumours, but the stock market was not convinced. Shares in Jardine Matheson, which is listed in Singapore, rose almost 13 per cent yesterday. This followed a gain of 19 per cent on Wednesday. **Louise Lucas**

TRUCK MAKING

Scania to link with Cummins

Scania, the Swedish heavy truck manufacturer, yesterday announced a joint venture with Cummins, the US diesel engine group, to produce high pressure fuel injection system.

The move follows a five year joint development programme involving the two companies. The new production company, 70 per cent owned by Cummins and 30 per cent by Scania, said the system would enhance engine efficiency and environmental performance. **Tim Burt, Stockholm**

ENGINEERING AND FORESTRY EQUIPMENT

Valmet-Rauma first results

Valmet-Rauma, the newly merged Finnish engineering and forestry equipment group, yesterday reported maiden pro-forma figures showing pre-tax profits of FM1.17bn ($231m) on sales of FM17.9bn in the 10 months to October 31.

The company, created by the merger of Valmet and Rauma, warned that its operating outlook had become more uncertain as customers delayed investments, particularly in Asia, Latin America and Europe.

For the whole of 1997 proforma pre-tax profits were FM1.87bn on sales of FM23.2bn. **Tim Burt**

CHEMICALS

Akzo Nobel sales grow

Chemical group Akzo Nobel said yesterday that 1998 sales grew by approximately 15 per cent. Speaking at Akzo Nobel's internal New Year's conference for senior management, Van der Lede, Akzo chairman, said that while final audited figures are not available, sales went up by about 15 per cent, "mostly through acquisitions, but this was not to the exclusion of organic growth". **AFX, Arnhem**

December sales mixed in US retail

Bond default rate hits a five-year peak

AT&T seeks new Canada partners

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December sales mixed in US retail

By Richard Tomkins in New York

Toys R Us and J.C. Penney, two of the biggest US retailers, yesterday reported heavy declines in December sales, highlighting the weak state of the toy and department-store sectors.

However, many other retailers did well, especially the big discount-store chains. Wal-Mart Stores, the world's biggest retailer, said sales at shops open a year or more shot up 9.4 per cent.

The figures came as most big US store groups announced their sales figures for the crucial Christmas season, which typically accounts for the bulk of their annual profits.

Retailers started the season expecting one of their best Christmases in years because consumer spending appeared to be holding up in spite of worries prompted by global economic turmoil earlier in the year.

But sales of winter clothing were hit when much of the US found itself in unseasonably warm weather.

Department stores were hit by the weak demand for coats, sweaters, gloves and hats. But they also suffered from an increasing tendency among better-off shoppers to bargain-hunt in the discount stores.

J.C. Penney said yesterday that sales at its department stores open a year or more tumbled 7.6 per cent in December, and warned that heavy promotional activity and mark-downs would produce worse-than-expected fourth-quarter profits.

Among other department store groups, Sears Roebuck, the biggest, continued to struggle, saying comparable store sales in the five weeks to January 3 slipped 0.3 per cent. Weak clothing sales were to blame.

Outside the department-store sector, Toys R Us reported a 7 per cent plunge in domestic toy store sales in the nine weeks to January 3.

The company blamed comparisons with the previous year's Christmas, which brought strong sales of electronic virtual pets, Star Wars action figures and Tickle Me Elmo dolls. But it has been suffering increasing competition from discount stores, which sell the most popular toys at lower prices, for years.

Although internet retailing has grown rapidly from a small base, it still accounts for less than 1 per cent of US retail sales and does not seem to have had a noticeable impact on traditional retailing.

However, shares in Borders, a book-store chain facing on-line competition from the likes of Amazon.com, plunged 23 per cent in early trading yesterday after warning that fourth-quarter earnings per share would fall 4-7 per cent below forecasts.

Bond default rate hits a five-year peak

By Edward Luce, Capital Markets Editor

The number of US companies defaulting on their bond obligations almost doubled in 1998, with the total worldwide default rate hitting a five-year peak.

Although Asian – and particularly Indonesian – corporations accounted for a large proportion of the 128 defaults in 1998, the number of US companies which defaulted on their obligations rose from 32 to 53, according to Moody's Investors Service, the rating agency.

Total bond defaults surged to $29.3bn last year, up from just $9.3bn in 1997, largely because of the worldwide financial crisis which intensified after the Russian domestic bond default in August.

Almost 50 per cent of the US corporate defaults took place in the final quarter of 1998, suggesting that many were attributable to the near-closure of the high-yield bond market in the wake of the Russian default.

Although the Federal Reserve reduced interest rates on three consecutive occasions, spreads in the US high-yield market remain significantly wider than they were prior to the Russian crisis and the near-collapse of Long-Term Capital Management, the US hedge fund, in September.

However, several of the larger US defaults – including those of Boston Chicken, Penn Traffic and Grand Union – had been anticipated long before the crisis in August, analysts said.

The global default rate – as a proportion of all rated bonds – rose to 3.3 per cent in 1998, from 2.02 per cent in 1997 and 1.66 per cent in 1996. In spite of the increase, Moody's said the default rate was roughly in line with the average annual rate since 1970.

The surge in 1998 had been exaggerated by the unusually low rates of bankruptcy in the preceding four years.

"Between 1994 and 1997 interest rates had been falling worldwide and economic growth was strong, which was an ideal time for companies to borrow money cheaply," Moody's said.

"The rate has been pushed back up to average by the Asian and Russian crises."

AT&T seeks new Canada partners

By Scott Morrison in Toronto

AT&T said yesterday it was looking for strategic partners in Canada after three of the country's banks sold their stakes in the US telecommunications group's Canadian long-distance operation. The move is part of an C$800m (US$530m) initiative to restructure AT&T Canada into a full-service telecoms group.

The banks' withdrawal from AT&T Canada Long-Distance Services was mandated by banking regulations. The banks' collective equity in LDS – 50 per cent of non-voting equity and two-thirds of voting shares – will be held in trust while AT&T negotiates with potential partners, which would invest in the company's Canadian expansion.

The trust is funded by AT&T, but officials would not reveal its value. Analysts estimated the value of LDS at C$1bn-C$1.3bn. AT&T also declined to provide details of its restructuring, but said a large portion would go toward compensating the banks.

AT&T said it was looking for Canadian partners with technology and access to customers through their networks, such as utilities and cable companies. Cogeco and Videotron, two Quebec-based cable-television operators, are seen as likely partners. The two have recently completed share issues and plan to enter the local telephony market.

Observers questioned why AT&T did not wait to find a partner or investor before announcing a change in the ownership structure. "It seems they could be trying to create a bidding war," said Dvai Ghose, telecoms analyst at HSBC Securities.

AT&T's Canadian long-distance, reselling and some administrative functions will be consolidated under the banner of AT&T Canada, which will also launch a local service in 1999.

Under the previous ownership structure, AT&T Canada Enterprises, representing the US parent, held one-third of the Canadian long-distance services company's voting shares and 50 per cent of non-voting equity, the maximum allowed under foreign ownership restrictions.

WaMu exercises thrift to gain economies of scale

Now the largest in its sector, the institution is seeking to cut its branch network to achieve savings, reports John Authers

Amid the "end-game" of mergers of commercial banks last year, Kerry Killinger of Washington Mutual produced the definitive final merger in the thrift sector.

Washington Mutual – universally known as WaMu – was the third largest thrift in the US early in 1997, when HF Ahmanson, the largest, launched a hostile bid for Great Western, the second largest. WaMu bought Great Western as a white knight, to become the biggest thrift in the land.

Then in March 1998 WaMu bought Ahmanson, which in effect gave in to the logic of its own earlier bid for Great Western, in a deal which brought the three biggest thrifts together under one roof within one year.

Ahmanson cost $9.9bn, which valued it at almost four times book value. Now, the challenge for Mr Killinger is to make the deal pay.

He does not have any direct exposure to international capital markets to worry about, like many of his competitors, but it is now vital to integrate Ahmanson swiftly and without incident, and then to persuade the market that WaMu deserves a higher multiple than that usually accorded to thrifts.

At present, with a market capitalisation of about $23.6bn, and a price/earnings ratio at 14.7, almost exactly half that of the S&P 500 as a whole, WaMu looks like a potential acquisition target for an east coast bank anxious to gain a presence in California.

Widespread branch closures are necessary if the merger is to pay off in the long term

Mr Killinger says its earnings multiple is "out of sync with the fundamentals", although he concedes various factors are included in the valuation.

"Macro-wise, there may be concerns over the flat yield curve and what impact that might have on us. There are concerns on the integration. But people don't fully understand the momentum and the strategy of this company."

He described 1997's integration of Great Western as "a much more challenging assignment", and pointed to the company's record of compounding earnings growth at a rate of 15 per cent a year during this decade – second among large US banks – as reasons to give WaMu a much higher multiple.

The overlap of the old Great Western and Ahmanson branch networks is central to his latest deal, and widespread branch closures are necessary if the merger is to pay off in the long term. The current plan is to close 161 branches.

Kerry Killinger: his challenge now is to make the acquisition pay

Recent experience does not look encouraging. Wells Fargo's acquisition of First Interstate three years ago, also predicated on branch closures in California, proved disastrous. Service quality suffered and the bank's deposit base dropped.

But Mr Killinger points out that 40 per cent of the branches to be closed are within a quarter of a mile of another branch in the new combined company.

He added that Wells was already making a strategic shift, moving its customers to internet banking and supermarket branches, and that its takeover followed a hostile bid.

He said: "In our case, it's a friendly deal. All the branches are within our market. We aren't changing strategy, we're actually trying to enhance it."

A further key part of the strategy is to take advantage of the freedoms of the thrift charter. Thrifts are far less heavily regulated than banks, and Mr Killinger believes this is a competitive advantage.

He said: "We are establishing a different approach from what either thrifts or commercial banks have done. We were the first bank in the US to have its own family of mutual funds.

"We've approached the consumer with a very broad product line which looks much more like a commercial bank than a thrift. But we've maintained the cost structure which is much lower than for commercial banks."

WaMu has businesses in consumer and mortgage banking, consumer finance, investment services and – on the west coast only – commercial banking. The combination allows it to compete with the commercial banks on price.

Providing he can convince the market that WaMu should remain independent, Mr Killinger seems convinced that the company has a strategy for continued growth: "We can deliver better prices than commercial banks, but particularly in California, we have one of the best distribution systems in the state, in terms of the number of outlets. So we have lower prices with no less convenience. We don't split our energies between business customers and consumers."

AIRLINES FIVE-STRONG GROUP LEAVE HK COMPANY TO HELP SAVE TROUBLED PHILIPPINES CARRIER

Cathay executives to participate in running of PAL

By Louise Lucas in Hong Kong

A group of Cathay Pacific executives, including one closely involved in the collapsed negotiations to buy a stake in Philippine Airlines, are defecting to the troubled carrier.

The five-strong band have formed an advisory company to circumvent Philippine laws banning foreign management of public utilities. Four have already resigned from Cathay Pacific, Hong Kong's de facto flag carrier, and expect to start work in Manila shortly.

They are understood to have been won over by big packages from Lucio Tan, PAL's controlling shareholder. But Peter Foster, formerly Cathay Pacific's general manager for Taiwan and the Philippines, was circumspect: "The rewards are to a large extent contingent on our ability to achieve a turnround of the airline."

Joseph Estrada, president of the Philippines, has pledged to keep the jobs of the 8,000 staff but – as Cathay Pacific alumni well know – this does not necessarily gel with increasing productivity and returning the airline to profit.

"There's certainly going to be considerable restructuring," said Mr Foster, who played an integral part in Cathay Pacific's bid to take a stake in PAL.

A similar problem is facing the carrier that Mr Foster is leaving after 16 years' service. Cathay Pacific dived into the red for the first time in more than two decades at the halfway stage last year, as a result of the Asian financial crisis and dearth of tourists.

It has sought to improve productivity, first by laying off staff and, more recently, by offering new packages that essentially offer small annual pay rises in return for extra hours.

In response, union representatives of the 5,500 strong cabin crew have suggested an hour-long moratorium on smiling in retaliation.

However, the threatened action appeared to have little impact on Cathay Pacific's share price yesterday; nor did the departure of Mr Foster and his colleagues, although this was not announced. Its shares yesterday soared to their highest level in 15 months, to close the day up 12 per cent at HK$9.20.

The defections coincide with a move by the Mr Estrada to create a special cabinet task force to study ways to save troubled Philippine Airlines from closure.

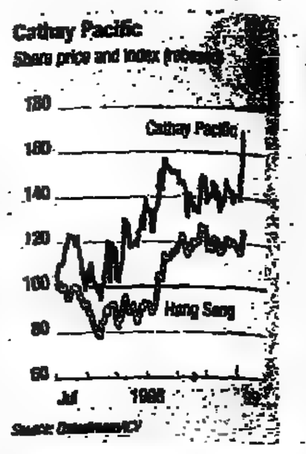
Yesterday's statement carried strong hints that the government might resort to protectionism in aviation to save PAL, a move long urged by Mr Tan. He claimed that liberalisation had damaged PAL's operations.

It also marks the end of the government's hands-off policy in rescuing the national carrier.

Fernando Barican, a palace spokesman, said PAL was a vital industry and that Mr Estrada had created the task force to look for ways to make it viable.

The move follows the rejection by many of PAL's big creditors of its rehabilitation plan. The latest to shoot down the proposal was Japan's Dai-Ichi Kangyo Bank, an unsecured creditor which is among holders of a US$1m floating rate note that PAL had issued.

Cathay Pacific
Share price and index (rebased)



Source: Datastream/ICV

SingTel to take 20% stake in Shinawatra arm

By William Barnes in Bangkok

Singapore Telecommunications is taking a 20 per cent stake in Thailand's Advanced Information Service, a cellphone subsidiary of Shinawatra Computer and Communications.

The move is part of a wider financial restructuring by the Thai holding group in preparation for market liberalisation, starting possibly this year, and is expected to put pressure on AIS's weaker Thai rivals UCOM and TelecomAsia to find their own partners.

The tie-up will allow Shinawatra to realise a Bt3bn ($8.24m) gain on its investment in AIS, which recently reported its worst quarterly performance since 1992.

AIS said in a statement that the deal would "increase the capability of the company to compete in the liberal market [in areas] such as the quality of network, service, technology, management, marketing and others".

It is also likely to put SingTel, which has a cash pile of more than S$4bn (US$2.38bn), in a more favourable light with the Thai authorities – which may be a useful advantage when the big state telecoms monopolies are privatised. It has started to expand in the region in search of growth as its home market matures.

A few years ago, SingTel entered the Philippines' mobile sector with a joint venture with Ayala via Globe Telecom, and last year it was beaten by British Telecommunications to a stake in Binariang, a leading Malaysian cellular operator.

Under the three-part plan, SingTel, which is controlled by the Singapore government, will first buy 18.63 per cent of AIS at a cost of Bt11.57bn. Shinawatra will sell SingTel 14.3m AIS shares and AIS is selling 36m new shares at Bt230 each.

SingTel will later acquire a further 3.7m AIS shares at Bt230 to lift its stake to 20 per cent on a fully diluted basis.

Shinawatra computer, the holding company, is also issuing 138.6m shares in a 1-for-15 rights issue, doubling its paid up capital from Bt1.39bn to Bt2.77bn.

SingTel will also make a loan of Bt851m to Shinawatra, equity secured.

The proceeds are likely to be used to reduce borrowing costs rather than fund a significant purchase.

AIS's gearing will be lowered from about 140 per cent to 50 per cent, with the parent company's stake being relaxed from 51 per cent to 40 per cent on diluted basis.

ABN-Amro expects AIS to make Bt1.66bn profit this year, a fall of 40 per cent on 1998 and down from Bt3.5bn in 1996. But profits are expected to bounce back to Bt2.5bn next year as the economy recovers.

"It's a smart move. Shinawatra must be commended for not making an issue of control and concerning itself with quality of earnings," said Andy Chan, analyst at ING Barings.

But some Thai-based observers wondered if SingTel – a monopoly player – would prove the ideal partner for a group facing an increasingly competitive environment.

There was also a feeling that AIS's strong balance sheet might have won a better price in an open auction.

"I don't think it's tremendous. I'd describe it as neutral. It would be nice to have a clearer picture of what SingTel planned to do in the region," said Richard Moe at SG Securities.

"If SingTel announced, say, a strong regional alliance that included Shinawatra then I'd be more positive."

Shinawatra shares rose Bt5 to Bt165 on the local board yesterday, while those in AIS fell Bt 4 to Bt266 – probably on profit taking.

Indian cement producer forced to abandon issue

By Krishna Guha in Jaipur

Ratan Tata: his group denies seeking control of ACC at unfair price

In a rare show of strength, India's financial institutions yesterday forced Associated Cement Companies, the country's biggest producer, to drop plans for a preferential issue of shares and warrants to the Tata group.

The preferential issue, worth Rs1bn ($24m), would have enabled the Tata group to raise its stake in ACC from 13 per cent to 20 per cent, giving it effective control over the company.

However, the ACC board abandoned the plan after its main institutional shareholders said they would vote against the motion at yesterday's extraordinary general meeting. A last-minute compromise proposal, to offer warrants to all shareholders, was also scrapped. A separate motion to approve a Rs1.89bn rights issue to all shareholders was passed.

The institutions, which together hold 21 per cent of ACC, were angry that the warrants were to be priced only slightly above the current share price and far below the price they paid in a rights issue in 1995. They believed it would hand control to the Tatas without a proper premium, and depress the share price.

"It is a question of the rights of minority shareholders," said G.P. Gupta, chairman of Industrial Development Bank of India, which led the opposition to the preferential issue.

The move is a further sign of growing assertiveness on the part of India's state-owned financial institutions, which are under pressure from competition, bad debts and a lacklustre stock market.

Unit Trust of India, the troubled fund manager which controls 90 per cent of India's mutual fund industry, wrote recently to all companies in which it holds shares asking for regular presentations on plans to raise shareholder value.

However, yesterday's events leave ACC in an awkward position. The company urgently needs to raise additional equity to reduce its debt burden and fund investment plans, and must also clarify its relationship with the Tata group.

Pallonji Mistry, chairman of ACC, said the company would have to look at alternative ways of raising finance. He said ACC regarded the Tata group as one of its promoters, or founding shareholders.

Tata meanwhile denied that the group was seeking to win control of ACC at an unfair price. It said the warrant pricing was based on the past six months' share performance, in line with stock-exchange guidelines.

NEWS DIGEST

TAIWAN

EVA Airways switches forecast to profit

Taiwan's EVA Airways said yesterday it expected to post a slim profit for 1998 instead of the T$665m ($20.7m) loss it had earlier forecast. The airline, a unit of Evergreen Marine, the shipping giant, said expansion of its cargo-carrying fleet, a rise in the Taiwanese dollar and a fall in fuel costs had helped it to shrug off the worst effects of Asia's economic crisis.

Taiwan's second largest international airline predicted a 1998 net profit of T$62.59m on revenues of T$42.9bn, down from a net profit of T$902m on sales of T$39.4bn in 1997. Asian airlines have suffered greatly from the financial crisis that has swept the region, slicing into travel budgets and emptying tourist sites. Some of EVAs success in limiting the damage is likely to have come at the expense of Taiwan's leading carrier, China Airlines, which in February lost one of its airliners in a crash that killed 202 people.

EVA said its cargo revenues grew 25 per cent in the second half of 1998 compared with the first half. It forecast steady growth for 1999, saying it expected revenues to rise around 7.9 per cent to produce a profit of T$480m.
Mure Dickie, Taipei

HOME ENTERTAINMENT

Blockbuster finalises HK buy

Blockbuster, the US home entertainment retail chain, yesterday finalised an agreement to purchase assets of KPS, the collapsed Hong Kong video retail chain. Blockbuster, which had been looking to enter the Hong Kong market for some time, will take over 15 of the 38 former KPS stores. It aims to have the stores re-opened by lunar new year, the biggest holiday in the Chinese calender, in the middle of next month.

KPS was founded in 1981 and grew into the biggest video rental chain in Hong Kong. It collapsed in October, partly a victim of the economic crisis and the imposition of laws last year that banned parallel imports, or the purchase of goods independently of the official distributor.
Louise Lucas, Hong Kong

NORMA COHEN
THE PROPERTY MARKET

Punishing time for Reits

The trusts' relative performance has been 'truly awful'

Those with a good ear in the UK property industry would late last year have heard the sound of hands being rubbed gleefully together at the evident collapse of US Real Estate Investment Trust shares throughout the year.

At a December conference on Reits, organised by Access Conferences International, chartered surveyors and UK property fund managers could scarcely conceal their joy at watching the vehicle which had been hailed as the way forward for property investment substantially underperform the rest of the US stock market.

According to the US investment bank Goldman Sachs, "If Reit performance on an absolute basis was terrible during 1998, then the relative performance of the sector can only be accurately described as truly awful." The S&P 500 Index powered ahead by 26.4 per cent in the first 51 weeks of the year, while the benchmark Wilshire Reit Index declined by 22.8 per cent, leaving what Goldman Sachs describes as "a shockingly large gap of 49.2 percentage points".

Even against smaller company shares Reit performance looked miserable. The benchmark Russell 2000 fell by 7.2 per cent during 1998.

Where did Reits go wrong and does it mean that Reit-like structures from Australia to Belgium are doomed?

"Real estate competes for capital along with corporate American," says Tim Callahan, president and chief executive officer of Equity Office Properties Trust, the US's largest office Reit. If Reits do not have a convincing story to tell, investors will take their capital elsewhere, he says.

A section of US investors have long eyed them with suspicion. Property & Portfolio Research, a Boston-based econometric research firm specialising in real estate recently published an article entitled Reits – A Real Estate Index or a Pack of Lemmings? and concludes: "The sector has grown for growth's sake, with little thought given to real estate cycles or the diversity of the portfolio (until perhaps this year!)".

It says the vast outperformance of underlying property markets in 1995 through 1997 generated returns that were unsustainable.

One conclusion is that the Reit structure, even with its obvious tax advantages, is nothing more than a flash in the pan. Over time, public companies cannot outperform the underlying property markets.

However, Peter Linneman, senior managing director at Equity Office – and now on leave from the Wharton Business School where he is a professor – dismisses the notion that direct property investors have been immune from the effects of the Reit share slump. "Anyone who thinks that as a private owner you didn't get hit when real estate shares get hit is lying to themselves," he says. Because the real estate market is so opaque, it is impossible to truly calculate rates of return in a US market so broad and diverse.

Prof Linneman argues that the trend towards the public ownership of property is inexorable, and international.

"No industry having gone public ever goes private," he told a recent conference on Reits. "It will go around the world – transforming a dominantly privately capitalised industry to a publicly capitalised industry."

In the UK, there are more than 130 listed property companies. They do not have the tax advantages of Reits but can undertake activities that Reits cannot.

Philip Rose, managing director of Australia-based Lend Lease's European Property Capital business, points out that UK property companies can undertake far more development, trade assets more frequently, operate non-property businesses, cut dividends and raise leverage to more than twice the level considered acceptable at a US Reit.

There seems little reason, therefore, why UK property companies could not also become stock market darlings.

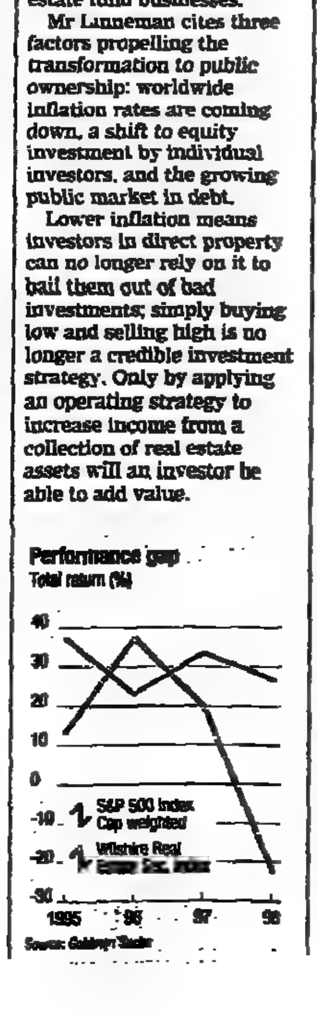
Quoted property companies are emerging across Europe, most significantly in Sweden and the Netherlands.

Italy has seen the flotation of its first publicly quoted property company spun off by the insurer INA, and Germany and the Netherlands also have vigorous open-ended real estate fund businesses.

Mr Linneman cites three factors propelling the transformation to public ownership: worldwide inflation rates are coming down, a shift to equity investment by individual investors, and the growing public market in debt.

Lower inflation means investors in direct property can no longer rely on it to bail them out of bad investments; simply buying low and selling high is no longer a credible investment strategy. Only by applying an operating strategy to increase income from a collection of real estate assets will an investor be able to add value.

Performance gap
Total return (%)



Source: Goldman Sachs

Second, the shift to equity investment means investors are choosing shares over life insurance policies or bank deposits, reducing capital available for direct property.

Thirdly, the rise of a public market in debt means even private investors are subject to its disciplines, as the US witnessed last summer when the commercial mortgage-backed securities market collapsed, and real estate transactions across the country seized up.

That, however, does not mean public companies will not make bad decisions and their share prices will not suffer. "The question is not whether dumb decisions will be made," says Mr Linneman. It is "whether dumb decisions will be punished". Already, some that have made particularly poor decisions are being punished and these will fall by the wayside, he adds. But more consolidation is likely. "It will be a long and painful trip," says Mr Linneman.

John Fosheim, principal at Green Street Advisors, a California-based research firm specialising in real estate securities, says it is not the tax advantages of Reits which have made them hot stocks. They were created in 1962 and for 30 years, performed sluggishly.

It was the creation of focused operating companies in a Reit tax-advantaged format which made them stock market darlings in the early 1990s. If share prices have lagged in the past year, its partly because investors question whether managements can deliver the added returns they promise.

The fact that Reits' shares have been such miserable performers throughout 1998 should not be regarded as a sign that they are structurally flawed; rather, that there are too many of them which do business badly.

But it is hard to see how once the toothpaste of public ownership has come out of the tube, it would be easy to put it back again.

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Barclays to ta

Liquidator gives Griffin traders some comfort

The Nippon Credit Bank (Curaçao) Finance, N.V.

BANKS ADVISERS TO THE FORMER CONGLOMERATE TO PAY £150M TO SETTLE LEGAL ACTIONS

Barclays to take £76m charge for B&C

By George Graham

The long saga of British & Commonwealth Holdings, the conglomerate built by John Gunn which crashed in 1990 with £1bn in liabilities, drew closer to its conclusion when a group of the company's former advisers agreed to pay a total of £150m ($250m) to settle lawsuits brought by the receivers.

The largest contributor to the settlement is Barclays, whose former corporate finance subsidiary, BZW, advised B&C over the disastrous acquisition of Atlantic Computers in 1988.

Other former B&C advisers covered by the settlement include Coopers & Lybrand, NM Rothschild and Spicer & Oppenheim.

Barclays, which had for years "vigorously defended" itself against the charges of negligence brought by Ernst & Young, B&C's administrators, will contribute £116m to the settlement.

The bank expects to get £40m from its insurers, but that still means a charge of £76m in its 1998 accounts.

The news comes as a further blow to Barclays, which six weeks ago issued a profits warning in conjunction with the abrupt departure of Martin Taylor, its chief executive. The B&C charge was not included in its statement that pre-tax profit would be not less than £1.9bn.

The settlement springs out of a mediation process conducted under the auspices of the Centre for Dispute Resolution by Lord Griffiths, a retired law lord, and Jonathan Marks, a US mediator.

It brings a swifter end than had been expected to litigation launched in 1994 and scheduled to come to court in May 2000. The trial had been expected to last for up to 15 months.

The administrators expect to pay another 3p in the pound to bank creditors of B&C Group Finance, a financing subsidiary, this month. That will mean banks from that group will have received their money back in full, including interest up to February 1992, with the possibility of paying some further interest after that date.

For B&C itself, the administrators expect to pay a further 40p in the pound by the end of February. With dividends of 46p in the pound paid, this brings the distribution up to 86p in the pound.

That makes a total for the two companies of £1.3bn. Another £347m has been paid to creditors of BCMB Corporation, formerly British & Commonwealth Merchant Bank, which gives them a complete repayment of their money, including interest.

Barclays had recorded the B&C litigation in its accounts as "legal proceedings" rather than a contingent liability. The claim originally made against the bank was £500m.

Liquidator gives Griffin traders some comfort

By Vincent Boland

Independent "local" traders on the London International Financial Futures and Options Exchange should receive 50 per cent of their frozen assets back within eight weeks, the liquidator of the collapsed Griffin Trading Company said yesterday.

Finbarr O'Connell, a partner at the accounting firm Grant Thornton, which was appointed earlier this week to wind up Griffin, declined to reveal how much money had been frozen as a result of the collapse but said a payment was "possible within two months".

However, disagreements emerged at the first meeting yesterday between the locals and the Securities and Futures Authority, which ordered the assets freezing. The SFA shut Griffin just before Christmas after John Park, a trader associated with the firm, incurred a £6.2m loss trading German government bond futures through Eurex, the German/Swiss derivatives market.

It has since emerged that a further $2m could have been lost by Griffin's Chicago-based parent company in alleged unauthorised securities trading by its former chief financial officer. The parent company was unable to rescue its London arm when the trading losses occurred and has since filed for bankruptcy in the US.

The SFA said after a meeting with locals that it would "encourage an accelerated interim pay-out" if the liquidator could not make an early payment. But the regulator was criticised for not allowing locals to borrow money using the frozen assets as collateral.

"That would be proof of the SFA adopting a practical approach to helping the locals," said Steven Woolfe of Taylor Joynson Garrett, a law firm acting for some of the affected traders. One trader said a group of locals would attempt today to raise new capital to allow them to resume trading on Liffe "early next week". Liffe said it had set up a "fast-track" procedure to allow locals to re-register with other firms.

The liquidation of Griffin could take several months. One of its main assets is its membership of the London Clearing House, which clears trades carried out on London's financial futures markets. Mr O'Connell said that was worth £350,000 but would take time to sell because there were 16 others on the market.

Decision on Wembley near

By Patrick Harverson and Charles Pretzlik

The long-running saga of the £103m ($171m) sale of Wembley Stadium is expected to be settled in the next few days. This is in spite of a last-minute takeover approach for the entire Wembley group from Enic, the sports and entertainment company founded by Joe Lewis, the billionaire financier.

The offer for Wembley is believed to be worth about £230m in cash and Enic shares, and was prompted by the opposition of Wembley's three non-executive directors to the sale of the 75-year old stadium to the English National Stadium Trust, a non-profit making body set up to oversee its estimated £250m-plus redevelopment.

The three rebel directors, who believed the stadium was being sold too cheaply, failed in their attempt to scupper the deal when they were out-voted by executive members of the Wembley board. Claes Hultman, chairman, cast the decisive vote to approve the sale last month.

The board will meet again today to consider the offer from Enic although it is thought it considers the Enic offer to be too low and earnings-dilutive. Enic is not expected to raise its bid unless it receives the backing of Wembley's two main shareholders – Phillips & Drew and Schroder Investment Management.

The board is expected to sign the stadium sale contract with the ENST in the next couple of days.

A second counter-bid is believed to be possible from Stephen Tucker, a Monaco-based businessman known to have looked closely at making an offer.

The conclusion of the stadium sale will end a four-year saga to modernise Wembley. Built in 1923, the self-proclaimed "Venue of Legends" is badly in need of reconstruction.

The ENST has lined up £120m of National Lottery money from the Sports Council to help fund the project.

EMI may buy London Records

By Alice Rawsthorn

EMI, one of the world's largest music groups, is considering the acquisition of London Records, the independent label which numbers All Saints and New Order among its acts.

London's UK label is wholly owned by a trust linked to Roger Ames, president of the music division of PolyGram, the Dutch entertainment group taken over by Seagram of Canada in an $11bn deal last month.

PolyGram held the distribution rights for London's acts and co-owned London's US record label with the trust.

Since Seagram unveiled the terms of its PolyGram bid last summer, Mr Ames, a respected figure in the music industry, has held discussions with several multinational music groups about his role as a senior executive and London's future distribution.

He is continuing talks with the Warner Music division of Time Warner, the US entertainment group, and with Seagram, which is keen to keep him and London Records within Universal Music, the subsidiary with which it is merging PolyGram's music interests.

EMI is also eager to do a deal with Mr Ames.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abbey ♣	6 mths to Oct 31	44.7	(38.8)	9.91♥	(7.56)	17.55	(13.08)	3.5	Feb 10	3	-	9
Barbour Index	4 mths to Aug 31	2.4	(2.15)	0.891L	(1.02L)	3.6L	(4L)	-	-	-	-	[illegible]
Cardiff Property	Yr to Sept 30 ★	[illegible]	(3.19)	0.408♥	(0.474♥)	14.7	(13.7)	2.4	Apr 6	2.1	3.5	3.1
Goode Durrant	6 mths to Oct 31	116.6	(95.5)	15.1	(17.4)	17.1†	(21.7)	4	Feb 12	3.75	-	11.75
Jurys Hotel ♣	6 mths to Oct 31	43.8	(37.1)	13.4	(10.8)	25	(19)	4	Feb 12	3.12	-	9
Mathven's ϕ	Yr to Sept 30	5.21	(3.6)	0.023L♠	(0.006L)	0.27L†	(0.07L)	-	-	-	-	-
SEC	Yr to Sept 30	[illegible]	(73.2)	0.6L♠	(3.3)	4.41L†	(12.79)	nil	-	[illegible]	2.25	5.1
Vardy (Reg)	6 mths to Oct 31	587.1	(409.9)	12.3	(8.42)	14.8	(10.4)	3.2	Apr 30	2.8	-	[illegible]

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. ★ Comparatives restated. †On increased capital. ϕAim stock.

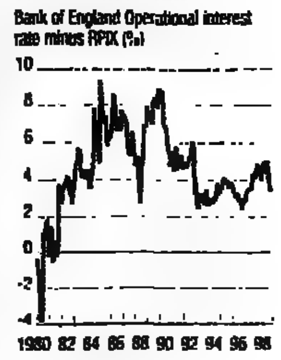
COMMENT

UK interest rates

A cynic would say that yesterday's 0.25 point cut in UK baserates, to 6 per cent, was an admission of past mistakes – on the hawkish side – by the Bank of England's monetary policy committee. The economic signals have been ambiguous since December's 0.5 point cut. While the hand wringing has continued in business surveys, consumers' wallets keep flapping and service industry pay deals ticked up late last year. The good news is that the cut confirms that the MPC is veering towards a "neutral" position on interest rates. It has said this lies between 4.5 and 6.5 per cent; others would plump for 5 per cent. Next month's MPC meeting may well exploit the considerable scope for further cuts. It will have fourth quarter gross domestic product figures to chew on – which are expected to show no growth.

UK real interest rate

Bank of England Operational interest rate minus RPIX (%)



Source: Datastream/ICV

But it would be unwise for any remaining unenthusiastic investors to get excited now about the prospect of companies recovering rapidly this year thanks to low interest rates and a weak pound. First, a fall in interest rates below 5 per cent could be held up by any sign of inflation pushing above the 2.5 per cent target. Second, just as it took a long time for the strong pound to hit profits, the same may be true in reverse. Companies will still have to curb costs to combat the margin squeeze inflicted by low inflation.

Wembley Group/Enic

Should Enic buy Wembley? The key is Wembley Stadium, which the English National Stadium Trust is about to buy for £103m prior to a £250m-plus redevelopment part-funded by lottery money. Scrapping that deal seems a non-starter. As a theoretically profit-making company (though Enic lost money last year), it would be ineligible for lottery funding, making such a grandiose redevelopment hard to justify. Letting the sale proceed looks shrewder. Assuming a 400p a share bid, valuing Wembley at £220m, and netting off the stadium sale proceeds against Wembley's £40m net debt, Enic's bill would be left at about £160m. The result would be that Enic acquired Wembley's remaining businesses, greyhound tracks and ticketing for a mere 6.5 times 1999 operating profits. But Wembley shareholders are unlikely to accept Enic's dismal paper when a juicy buy-back is imminent. More cash might work.

Doughty opens US office

By Katharine Campbell

Doughty Hanson, the London buy-out house, is taking on its US competitors on their home turf by opening a New York office.

The operation is headed by Kevin Luzak, 36, formerly at Salomon Smith Barney, where he headed distressed sales trading and research within the fixed income department. Nigel Doughty, chief executive, will spend two weeks a month in New York.

The move makes Doughty Hanson the first of the main European private equity participants preparing to tackle larger leveraged buy-outs in the competitive US market. It will invest in the US from its latest $2.7bn fund, completed in October 1997.

BUSINESSES FOR SALE

BUSINESS OPPORTUNITIES

CONTRACTS & TENDERS

CONTRACTS & TENDERS

LEGAL NOTICES

INTERVIEW BERT ROBERTS, MCI WORLDCOM

Cut off by BT's wrong call

UK shareholders rejected a merger with MCI but the chairman is hanging on, writes **Richard Waters**

Bert Roberts still seems bitter about the failure of his transatlantic ambitions.

It is two years since the former chairman of MCI, then the second-largest US long-distance telephone company, agreed a merger with British Telecommunications. Now, as chairman of the new MCI WorldCom, he finds himself the figurehead of a very different company – and playing second fiddle to the new firebrand of the telecoms industry, Bernie Ebbers.

To hear Mr Roberts talk about it now, the failure of the BT merger was due entirely to a lack of vision on the part of a small group of big UK investors.

"The shareholder base in the UK is conservative, they are reserved," he says. "They want to look at BT as something that will never lose market share and will continue to crank out high dividends." He contrasts that with shareholders in the US, who "love the likes of MCI and WorldCom – they look for capital appreciation in the stock."

If that sounds like sour grapes, it probably is. "I think it was near-sighted, I think it was wrong," Mr Roberts says of the shareholder pressure that led BT to cut the value of its offer for MCI, eventually dooming the merger.

Mr Roberts's attachment to his earlier vision may seem surprising from this distance. MCI WorldCom is the world leader in carrying internet traffic and is widely viewed as a pace-setter in the international telecoms business. Earlier this month, its stock market value surpassed that of AT&T, a company whose revenues are 60 per cent greater.

But the former MCI boss has had to take a back seat. There is no question who is calling the shots: Mr Ebbers, the former basketball coach and WorldCom chief executive who has won over Wall Street with a string of canny acquisitions. "When you have put your stamp and your fingerprint on [a business], it's emotionally tough to step back," says Mr Roberts of his new role.

That probably accounts for his apparent ambivalence now. Just because the BT/MCI plan was the right one to pursue at the time, "it doesn't mean that what we're doing now isn't more right," he says, torturing logic.

There has certainly been strong stockmarket backing for MCI's merger with WorldCom, thanks in part to the new company's heavy involvement in some of the fastest-growing parts of the telecommunications business.

But there is still much to play for as the global telecommunications industry consolidates. As Mr Roberts sees it, there will eventually be four or five "super-carriers". And to cement its position as one of these, MCI WorldCom will need to move on a number of fronts.

Most important will be how it handles deregulation of the local telephone business at home, he suggests. "We're still sitting here with the world's biggest market – the $100bn local market – just on the verge of opening up," he says. It was the former MCI's costly attempt to break into that market that scared off BT's investors – although Mr Roberts says that BT knew from the start what the costs would be.

Grabbing 15-20 per cent of that local market would nearly double MCI's revenues, he says. But similar forecasts by other carriers have proved woefully unrealistic. Most notably, AT&T's forecast nearly three years ago that it would take 30 per cent of the local market: in practice, it has barely scratched the surface.

The second boost could come from more acquisitions, particularly of wireless companies. While calling such a move "possible", Mr Roberts adds that the purchase of another "traditional carrier" is unlikely: instead, deals are more likely in the internet or data business areas, and in wireless – the one high-growth part of the industry where MCI WorldCom is conspicuously absent.

"It is our belief that wireless properties around the world are going to lose value simply because of [new] competition," says Mr Roberts. He was speaking before the news of two rival bids for AirTouch, the largest US wireless company, which has driven the share prices of other wireless companies up on speculation about other mergers.

Investment overseas is also high on MCI WorldCom's plans – although less prominently than in the US, which will remain the top priority. In its post-BT incarnation, MCI's view of the world will be from the US looking out. That is a perspective from which it should be possible to build one of the next generation of super-carriers, says Mr Roberts.

Mr Ebbers does not have a reputation for sharing power, or even trying particularly hard to retain executives

Whether he will be there for the ride is difficult to predict. Mr Ebbers does not have a reputation for sharing power, or even trying particularly hard to keep the services of executives who join his company in mergers. Gerald Taylor, MCI's chief executive, left within days of that merger, although he had been named the new MCI WorldCom's international boss. And the chairman of MFS Communications, WorldCom's last big acquisition, left quickly to start a rival company.

For now, though, Mr Roberts seems wedded to the cause. He says he feels an "inherent responsibility to make sure that what I built moves on to the next phase successfully," and says he will stay as long as he remains useful to Mr Ebbers.

"I don't have another business I want to do: I want to make this one work."

Missing link: Roberts announces the 1996 plan to merge BT and MCI which was later rejected by the British company's shareholders Reuters

DAVID BOWEN
WEB SITE INSPECTION

Schmaltz and all

US and UK government sites have a lot to offer – until it comes to difficult issues

The web should, it seems to me, be a terrific place to get your view point across – especially if you are in a spot of bother. You can construct your defence immediately, write as much as you like, and be your own spin doctor. Yet hardly anyone seems to use their sites in this way: the only exception I know of is Shell (*www.shell.com*), which tackles foes such as Greenpeace, and even has links to their web sites.

Which leads me to the White House and Number 10 Downing Street sites. Occupants of both are feeling uncomfortable, yet neither site makes any attempt to tackle the issues of the moment. The White House site is amazing, as most US government sites are, in the sheer volume of information it contains.

If you want a biography and picture of every First Lady, here it is.

And if you want proof that life is a only a pale imitation of Disney, that is here too. The "Winter Wonderland: Holidays at the White House" tells us "miniature versions of Socks and Buddy, the Clintons' pets, frolic through the kingdom in the true spirit of the holidays".

But if you want anything that might tackle those touchy subjects everyone else is talking about, no luck here. Despite the links to US government departments, the rose-tinted spectacles remain firmly in place.

The Number 10 site is better if only because it is mercifully schmaltz-free: no pets or family, and Tony Blair's biography is a simple CV (past prime ministers back to Harold Macmillan get a fuller write-up). The navigation is superb (among the best I have seen on any site), the design neat and the tour of the building excellent. I particularly like the way you can click on a small photo so that it blows up in a special window: a good way of combining fast-loading with full-sized pictures for those who want them.

But again it is all chirpy-chappy stuff. A handful of news releases include an intriguing one about "mordernising [sic] the UK economy", while a specially written feature, under Mr Blair's name, tells us "what the government has achieved in our first 18 months".

There is an interactive section where you can register to receive government releases by e-mail, watch a nine-month-old video of Tony Blair talking to Sir David Frost, and take part in a forum. But this forum, while well-used, is entirely "between the people" – no sign of our beloved leaders wanting to get involved.

Perhaps I am being naïve, but it seems to me that a web site should be the place where we can hear what the horse is saying with its own mouth? Will that ever happen?

www.whitehouse.gov
Overall ***
Design ***
Navigation ***

www.number-10.gov.uk
Overall ***
Design ****
Navigation *****

So here we are with a new currency. I decided to find out about the euro by looking at the web, but ran immediately into a problem: the choice is vast, and a big bank site without a euro section is as rare as a hen's tooth. So I let myself be seduced by advertising: UBS spent goodness knows how much advertising its euro web site in this newspaper before Christmas, and I must say it was blowing its trumpet with reason.

The quadrilingual site has a phenomenal amount of information, ranging from "the basics" via an explanation of the European Central Bank's role to a useful investor's guide. UBS explains clearly how it thinks the euro will affect equity, bond and money markets. You can also download a "euro calculator" which will give you conversion rates for any of the 11 currencies which embraced the euro and each other.

Navigation is straightforward, and is the key to the site's strength. You can click easily across to the "quotes" area and look up stocks and bonds in several markets in real time – euro-denominated instruments are included.

This is the sort of service only expensively wired professionals could get even a year ago: it may even, in time, have quite an effect on the way that the markets work.

www.ubs.com/e/pcc/euro.html

Overall *****
Design ***
Navigation ****

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MY SECRET WEAPON
CLAUS GERCKENS ON SERVICE

Philosophy that pays

Peter Marsh finds a paper management company determined to be number one

Claus Gerckens is chairman of Böwe Systec, a German company which is the world's second biggest supplier of high-speed paper management equipment. The company started in 1945 as a maker of dry-cleaning equipment. In 1997 it had sales of DM284m, 78 per cent outside Germany.

Our customers discuss their requirements in terms of truckloads of paper. For instance, one of our small machines can put letters in envelopes for mailing at the rate of 6,000 an hour. NTT, the Japanese telecommunications company, has 45 of our systems with total throughput of 4m letters a day.

One of our most complex machines was for Allianz, the German insurance company, where the system had to sort and insert several dozen different types of documents and put them in different sizes of envelopes at the rate of several thousand an hour. The machine was highly sophisticated and cost about DM2m (£727,000).

There are lots of technology demands on what we do. Our equipment has to identify documents being presented to it using specialised image processing systems and advanced software.

There are high-speed guillotines inside the systems to cut paper accurately. At present these are orthodox cutting blades but we could use ceramic cutters or even lasers in the future to make the machines faster.

We use small jets of compressed air to open up each envelope so that the correct pieces of paper can be inserted inside. The time for this can be as little as a fifth of a second.

The company requires a breed of "mechatronic" engineer who understands both mechanical and electronic disciplines. About half the cost of each machine is in mechanical engineering, the rest in electronics and software.

But the real key to Böwe Systec is our service philosophy. We have to work closely with our customers. We always think about ways of organising this aspect of the business better.

We really are a service company that happens to be making things. Perhaps our secret weapon is a network of service and maintenance people who keep in constant touch with our customers and are an extension of the marketing side of the company.

Of our 1,350 employees, nearly 40 per cent are in some type of service job including maintenance, up from about 25 per cent five years ago.

For example, we constantly have service technicians at Barclays Bank, another big customer. Their job is to supervise the machines, but they can also talk to the customer about his needs and discuss new types of products.

Claus Gerckens: 'We have to work closely with our customers'

With this service-based philosophy we receive a constant revenue stream and permanent access to the companies we supply to. This provides an opportunity to keep track of how these companies develop, and to change what we do accordingly.

As to the future, we are determined to grow bigger, expanding sales at about 10 per cent a year. We have our sights on becoming the number one in the world, overtaking current industry leader, Bell & Howell of the US.

Our current worldwide market share is 17 per cent and we want to expand this to 30-35 per cent. But we won't buy market share – we want to earn it profitably and are keen to maintain a pre-tax profit margin of 10 per cent. We achieved 11.7 per cent in 1997.

We need to expand our business in the US and are prepared, in the long term, to consider building a plant there that would be in addition to Böwe Systec's two factories in Germany.

Because of our market niche and concentration on service, we can charge relatively high prices, which helps to pay for the high levels of research and development we need. Our goal is to concentrate on one small part of the machinery business, but to do this on a worldwide basis.

هكذا من الاصل

EURO PRICES

EQUITIES

Bourses slip as dollar falls against yen

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets closed lower yesterday as the focus of attention turned away from the euro and towards the US dollar.

It slumped to its lowest level against the yen for more than two years as fears rose of a repatriation of cash by Japanese investors, which have huge dollar-denominated assets.

While much of the decline – relatively modest in the context of the sharp gains in European and US share prices already this week – was due to profit-taking, the drop was also prompted by a cut in stock allocations by Abby Joseph Cohen, the US strategist at *Goldman Sachs*, and by the moratorium imposed by the Brazilian state of Minas Gerais on its debt to the federal government.

All European bourses were weaker although some closed above their lowest points for the day. The FTSE Eurotop 300 index of leading shares fell 14.93 or 1.18 per cent to 1,246.39. The FTSE Eurotop 100 index slipped 29.86 or 1.02 per cent to 2,894.27, while the FTSE Ebloc 100 index of stocks from euro-zone countries fell 15.82 or 1.46 per cent to 1,066.60.

Some of the week's highest-flying sectors, such as telecommunications and banking, paused for breath amid mild profit-taking.

Vodafone fell €0.20 to €15.21, KPN was down €3 at €50.75, and Mannesmann, which has extensive mobile phone interests, was €1.90 lower at €116.64.

But Swisscom, recently floated, rose €14.70 to €362.48, bucking the general trend in the telecoms sector, where the index fell 1.4 per cent.

SAP recovered a little of the ground lost on Wednesday, when it produced disappointing 1998 results, to climb €14.50 to €313.50.

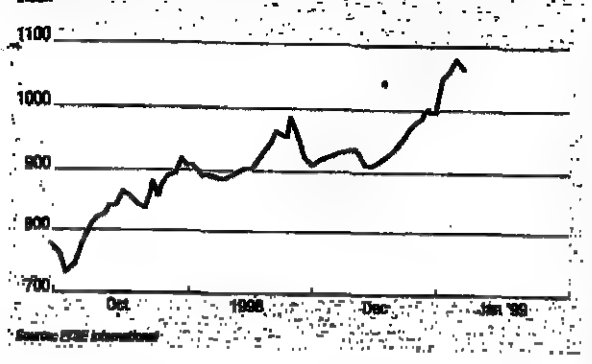
Personal care stocks were weaker with L'Oréal leading the slide, falling €41 to €636.

The steel sector posted solid gains amid signs investors are turning positive towards it, while paper stocks were boosted by UPM Kymmene, which rose €1.40 to €24.75.

Carmakers were hit by profit-taking although they are still well up on the year so far. Peugeot fell €5 to €138 but Volvo – which may be ready to sell its automobile division – rose higher. Its A shares were €1.40 higher at €31.70.

FTSE Ebloc 100

Index



FTSE Actuaries Share Indices — European series

Jan 7

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro) €
FTSE Eurotop 300	1246.39	-1.18	-14.93	2.18	0.07	1283.46
FTSE Eurotop 100	2894.27	-1.02	-29.85	2.21	0.18	1037.54
FTSE Ebloc 100	1066.60	-1.46	-15.82	1.95	0.00	1082.67
FTSE EuroMid	1179.67	-0.66	-7.86	2.84	0.08	1222.41
FTSE EuroMid Ebloc	1257.71	-1.35	-17.25	2.21	0.00	1284.33
FTSE EuroMid Ex UK	1268.18	-0.58	-7.39	2.15	0.00	1291.66
FTSE Eurotop 300 Regions						
Eurobloc	1302.27	-1.48	-19.65	1.91	0.00	1360.78
UK	1127.11	-0.91	-10.35	2.68	0.21	1183.84
Europe Ex-Eurobloc	1171.94	-0.86	-10.14	2.50	0.15	1214.01
Europe Ex-UK	1314.52	-1.32	-17.52	1.85	0.00	1339.12
FTSE Eurotop Industry Sectors						
RESOURCES	870.96	-0.04	-0.35	3.27	0.00	910.60
Mining	738.13	-1.18	-8.80	4.64	0.00	753.71
Oil & Gas	843.71	+0.00	+0.01	3.22	0.00	864.14
BASIC INDUSTRIES	1088.88	-2.46	-27.52	2.65	0.00	1112.04
Chemicals	848.98	-3.05	-26.68	2.84	0.00	863.96
Construction & Bld Matls	956.05	-2.13	-20.83	2.41	0.00	964.31
Forestry & Paper	883.28	+2.54	+21.92	3.46	0.00	923.66
GENERAL INDUSTRIALS	1127.86	-1.70	-19.46	2.51	0.00	1151.65
Aerospace & Defence	832.19	-1.99	-16.90	1.89	0.00	843.67
Diversified Industrials	1052.08	-1.23	-13.10	1.91	0.00	1076.15
Electronic & Elect Equip	989.82	-2.00	-20.16	1.02	0.00	995.21
Engineering & Machinery	943.75	-1.97	-19.01	4.55	0.00	956.76
CYCLICAL CONS GOODS	1348.14	-1.18	-16.04	2.44	0.00	1385.23
Automobiles	1008.48	-1.46	-14.88	2.30	0.00	1017.82
Household Goods & Texts	1263.17	+0.49	+5.38	3.24	0.00	1273.95

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

BONDS

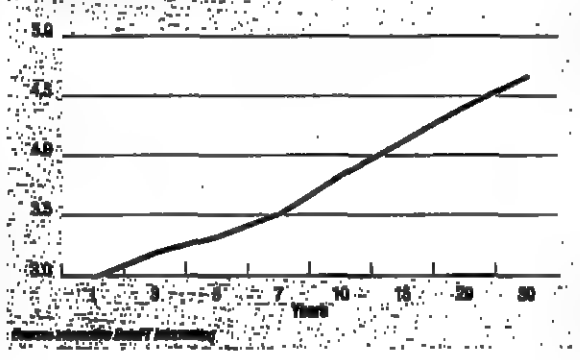
INTEREST RATE SWAPS

Jan 07	Euro-£ Bid	Euro-£ Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.15	3.18	3.15	3.18	5.46	5.49	5.10	5.13	0.53	0.56
2 year	3.16	3.20	3.16	3.20	5.21	5.24	5.12	5.15	0.67	0.70
3 year	3.28	3.32	3.28	3.32	5.15	5.18	5.19	5.22	0.89	0.92
4 year	3.40	3.44	3.40	3.44	5.14	5.18	5.24	5.27	1.11	1.14
5 year	3.54	3.58	3.54	3.58	5.11	5.15	5.29	5.32	1.30	1.33
6 year	3.68	3.72	3.68	3.72	5.09	5.13	5.33	5.36	1.50	1.53
7 year	3.81	3.85	3.81	3.85	5.08	5.12	5.37	5.40	1.67	1.70
8 year	3.94	3.98	3.94	3.98	5.07	5.11	5.42	5.45	1.81	1.84
9 year	4.06	4.10	4.06	4.10	5.07	5.11	5.46	5.49	1.94	1.97
10 year	4.15	4.19	4.15	4.19	5.07	5.11	5.49	5.52	2.04	2.07
12 year	4.31	4.35	4.31	4.35	5.09	5.11	5.57	5.60	2.27	2.30
15 year	4.49	4.53	4.49	4.53	5.05	5.11	5.67	5.70	2.52	2.55
20 year	4.68	4.72	4.68	4.72	5.04	5.11	5.80	5.83	2.74	2.78
25 year	4.78	4.82	4.78	4.82	5.04	5.11	5.83	5.86	2.79	2.83
30 year	4.85	4.89	4.85	4.89	5.03	5.11	5.84	5.87	2.86	2.90

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve

Per cent (January 7 1999)



EURO-ZONE BONDS

OTHER INDICES

FTSE EUROTOP 300

US Treasuries drag down Europe

BENCHMARK BONDS

By Rahul Jacob in London and John Labate in New York

European bond markets closed lower after weakness in US Treasuries dragged them down in afternoon trading. The down-draft from the US was the result of more volatility in the dollar-yen exchange rate. The bund future closed at 116.63, down from 116.80 yesterday.

"European markets want to rally, but they are coming under pressure because of the weakness in the US market. The bottom line is that these markets are highly correlated," said Phyllis Reed, at Barclays Capital.

UK gilts benefited from the decision to cut interest rates by 25 basis points. Ten-year UK gilt futures closed at 119.46, up from 119.16.

Speculation about whether rates would be cut had oscillated back and forth over the past few days, but the cut was treated as a surprise.

"The market response would indicate that it wasn't factored in. You've seen strong performance at the front end of the yield curve," said Andrew Bevan, at Goldman Sachs.

The dollar's slide against the yen depressed European markets, but didn't hold back another successful European government auction when France sold €3.4bn of 10-year OATs at a yield of 3.81 per cent and €370m of a 30-year issue at 4.63 per cent.

Some €21bn in European government bonds will have been issued this week, but there were few signs of indigestion. The French 10-year was oversubscribed 2½ times. "The auction underpins the strong demand we're seeing for European bonds," said Ms Reed.

The US aside, there is good news for bond investors in Europe. Earlier in the week, a German economics institute sharply lowered its forecast for economic growth in 1999. The market has begun to discount an interest rate cut by the European Central Bank in the coming months.

"If you looked at European markets in isolation, the underlying fundamentals look pretty constructive for bond investors," said Mr Bevan.

US Treasuries tumbled as stocks rebounded from a morning sell-off and the dollar fell against the yen.

By early afternoon the benchmark 30-year bond was down ⅜ at 100⅜, sending the yield up to 5.227 per cent. Shorter-term issues were also down, with the 10-year note off ⅛ to 99⅜.

"There is some concern that the economy is growing at a healthy clip," said David Ging, market strategist at Donaldson, Lufkin & Jenrette in New York.

Traders in the US prepared for the release of the monthly US employment report on Friday. Consensus expectations are for payrolls to have climbed by 200,000 in December.

Portugal to borrow mainly in euro-zone

By Peter Wise in Lisbon

Portugal's state financing needs can be almost wholly met in the euro-zone and debt issues in other currencies will be minimal, Vitor Bento, head of the public debt management institute (IGCP), said yesterday.

"We may tap markets outside the euro-zone for specific financing opportunities to take advantage of niches in the market where there are particularly favourable pricing conditions," he said. About 2.5 per cent of Portugal's public debt is currently exposed to exchange risk in non-euro currencies.

Portugal's financing requirements are estimated at €13bn gross and €3bn net in 1999. This compares with borrowing of €13.5bn gross and €1bn net in 1998. Mr Bento said the apparent increase in net requirements was mainly because the IGCP always made conservative estimates of privatisation revenues at the beginning of the year.

The IGCP plans to launch a new 10-year line of Treasury bonds this month, with an initial tranche of €1.5bn, placed by primary dealers Caixa Geral de Depósitos, Portugal's largest bank, Banque National de Paris and ABN-Amro Bank.

From February, €250m in this line will be auctioned each month. A new medium-term line, also with an initial tranche of €1.5bn, is expected to be launched in March, followed by monthly auctions of €250m.

A third line could be launched in mid-1999. An existing 15-year line of 5.45 per cent bonds due 2013 initiated in 1998 is also to be reopened for two auctions on February 24 and March 24.

Indian power group may issue bond

By Khozem Merchant

India's National Thermal Power Corporation is considering an international bond issue, which would be the first by an Indian corporate in nearly 18 months.

An issue by the state-owned NTPC, India's largest power generator, would be closely watched by other domestic companies as an indicator of investor appetite for Indian debt.

It may also persuade the government of India that the moment is right finally to issue its debut sovereign bond.

Indian companies have been shut off from global capital markets because of the Asian crisis and the upheaval in emerging markets. The country's nuclear bomb tests last May last prolonged their exclusion, which some believe may persist. "There is still considerable scepticism in the market [over a successful Indian issue]," said one banker.

Indian corporates have met their funding requirements by tapping the domestic markets, where they have raised domestic currency debt with long maturities.

Bankers say several well known Indian corporate names have been looking at international markets following the return of relative calm in emerging markets and the lifting of sanctions provoked by the nuclear bombs.

A banker close to the NTPC said the company was weighing the merits of a bond, which is considered the preferred option, or a syndicated loan. A mandate has not yet been awarded.

A bond issue would be for about $300m, and a final decision is expected in the second quarter, said the banker. "We expect a resumption of borrowing by Indian corporates in the next few weeks, possibly led by NTPC. There will not be a flood but certainly several of the better-known corporate names and state-owned companies are now looking overseas," he said.

NTPC's proposed bond would be the first since Tata Electric, part of the Tata industrial holding group, issued a two-tranche $300m "yankee" bond in July 1997.

The state-owned Indian Railway Finance Corporation raised a Y8.85bn syndicated loan late last year, which was privately placed and guaranteed by the Indian government.

If the NTPC issue went ahead, the company would join a select club of companies led by Reliance Industries, the chemicals group, which have raised funds on international debt markets. Others include state-owned Indian Oil.

Reliance was the first Indian company to issue international bonds, in 1993, and has since made several benchmark issues.

The largest issue of debt in India took place last summer, when the government launched its "resurgent bonds", which raised a bigger than expected $4.2bn from expatriate Indians.

The bonds were launched to replenish India's foreign exchange reserves following the nuclear tests and to help make good shortfalls for infrastructure projects following US sanctions.

World Bank raises Dr40bn

NEW ISSUES

By Khozem Merchant

The World Bank issued a Dr40bn bond yesterday, the largest single offering in a rash of recent drachma-denominated issues.

Four drachma bonds have been issued this week, continuing a trend dating back to November that owes its origins to the devaluation of the Greek currency earlier last year.

Driving the issuance is the so-called "convergence play". Investors believe strong political support in Greece for the euro-zone will translate into European monetary union membership in the next wave.

This political momentum is forcing a convergence of drachma yields towards euro yields, and is encouraging investors to pile into drachma paper.

"This convergence play happened with Italy, which eventually joined Emu, and is now repeating itself with Greece. Investors believe convergence will take Drachma yields from their present 6.5 per cent to the euro level of 3 per cent. And that it worth a play," said Geraud de Nadaillac, head of syndicate at Royal Bank of Canada. Yields on three-year Greek bonds have narrowed by 30 basis points this week.

Finance for Danish Industry, a government-owned bank, issued its first euro floating-rate note. The six-year €500m bond was priced at euribor plus 18 basis points and traded tighter in the after-market.

The issuance of euro FRNs has been hit because of the high-cost of conversion into dollar funding, known as "swap arbitrage". This has reduced supply in the euro-FRN market, forcing borrowers to stick to issuance in cheaper dollar paper.

In contrast, fixed-rate issuance continues at a ferocious pace. Bankers said the high volume was unlikely to lead to the "Japanese problem" of oversupply dampening the market. "Issuance is coming in different currencies, at different maturities and is targeted at different investors," said one.

The World Bank led the way with a $1bn add-on to a $1bn issue in November.

The European Investment Bank also issued a €1bn add-on to an earlier €1bn offering. A Council of Europe €500m offering revealed continuing Japanese demand for euro bonds.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
GMAC	1bn	5.85#	99.903R	Jan 2009	0.45R	+110(Nov08)	JP Morgan/M Stanley
GMAC	1bn	5.50#	99.793R	Jan 2002	0.25R	+84(6%Jan02)	JP Morgan/M Stanley
World Bank(b)	1bn	4.875	99.766R	Dec 2001	0.1875R	+30(5%May01)	ABN Amro/CSFB/Nomura
Crédit Local de France	750	5.50	99.55R	Jan 2009	0.35R	+72(4¾Nov08)	Paribas
National Bank of Canada‡	500	(c)	99.98	Jan 2004	0.20	-	Barclays Capital
CIBC	500	(d)	99.945R	Jul 2000	0.075R	-	CIBC/CSFB
European Inv'ment Bank(f)	250	5.375	100.96	Sep 2008	0.325	+45(4¾Nov08)	Morgan Stanley DW
GECC	250	5.00(f)	99.656R	Feb 2003	0.225R	-	Warburg Dillon Read
Kingdom of Denmark	100	3.875	96.93R	Jan 2002	0.1875R	+35(4¾Dec00)	Commerzbank
EUROS(e)							
Rheinische Hypo(p)	3bn	3.25	(g)R	Jan 2005	0.10R	(g)(7¾Jan05)	ABN/Commerz/MSDW
European Inv'ment Bank(h)	1bn	4.00	100.969R	Apr 2009	0.15R	+8(4%Apr09)	Paribas
Council of Europe	500	4.00	99.439R	Jan 2011	0.35R	+38(3¾Jan09)	Paribas/Tokyo-Mitsubishi
Finance for Danish Indy‡	500	(j)	99.90R	Feb 2005	0.20R	-	ABN/Paribas/Salomon SB
Electricité de France(k1)	326.173	3.75	101.33R	Oct 2003	0.20R	+10(i)	CDC Marchés/Deutsche
Electricité de France(k2)	83.348	5.00	107.57R	Jan 2009	0.325R	+28(i)	CDC Marchés/Deutsche
SGZ Bank Ireland‡	150	(m)	99.99	Jan 2004	0.20	-	HSBC Trinkaus
Council of Europe	100	(n)	101.25	Feb 2019	2.00	-	Lehman Brothers
STERLING							
Inter-American Dev Bank(o)	100	5.75(l)	107.266	Dec 2009	0.55	+65(5¾Dec09)	Dresdner KB
Alliance & Leicester(s)‡	75	(q1)	99.865	Dec 2002	0.15	-	Tokyo-Mitsubishi Intl
SWISS FRANCS							
John Hancock Global Fndg	250	2.50	101.30	Feb 2004	2.00	-	Warburg Dillon Read
CANADIAN DOLLARS							
Province of Ontario	250	5.00	98.068R	Jan 2009	0.325R	+27(6%Jun08)	RBC DS Global Markets
DANISH KRONER							
BBL International Finance	400	5.00	102.50	Feb 2009	2.00	-	ING Barings-BBL
GREEK DRACHMA							
World Bank	40bn	6.25	99.6425R	Feb 2002	0.1875R	-	Alpha/DG Bk/TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. b) Fungible with $1bn. Plus 41 days accrued. c) 3-mth Libor +15bp. d) 3-mth Libor flat. e) Spread relates to German govt bonds unless stated. f) Fungible with $1.5bn. Plus 118 days accrued. g) Priced today 13-15bp over Bunds. h) Fungible with €1bn. Plus 12 days accrued. i) Spread re French OATs. j) Over interpolated yield. j) 3-mth Euribor +12½bp. k1) Fungible with €1.172bn. Plus 96 days accrued. k1) Fungible with €1.717bn. Plus 188 days accrued. l) Long 1st coupon. m) 6-mth Euribor +10bp. n) 13% in yr 1, 8% in yr 2, 4% in yrs 3-7, then 8% - 12-mth Libor. o) Fungible with £100m. Plus 68 days accrued. p) Oeffentliche Pfandbrief. q) Fungible with £100m. Plus 38 days accrued. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 7	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.7740	4.64	-0.06	-	+0.22	-0.81
	08/08	8.750	127.5360	5.04	-0.08	+0.02	+0.20	-0.87
Austria	07/00	5.875	103.6800	3.18	-	-0.07	-0.03	-1.16
	01/08	5.000	107.7100	3.98	+0.02	-0.07	-0.11	-1.30
Belgium	01/00	4.000	100.3800	3.04	-0.03	-0.06	-0.21	-1.20
	03/08	5.750	113.5100	3.87	-0.01	-0.08	-0.15	-1.31
Canada	12/00	5.000	100.4960	4.72	+0.01	+0.01	+0.01	-0.22
	06/08	6.000	107.[illegible]	5.09	+0.06	+0.11	+0.15	-0.41
Denmark	11/00	9.000	109.4400	3.58	-0.10	-0.24	-0.26	-0.62
	11/07	7.000	121.5600	4.05	-0.01	-0.17	-0.28	-1.42
Finland	09/00	4.000	101.2260	3.10	-0.01	-0.08	+0.33	-0.83
	04/08	6.000	115.9900	3.91	-	-0.10	-0.22	-1.25
France	07/00	4.000	101.3400	3.06	-0.02	-0.11	-0.14	-1.12
	10/05	7.750	125.0800	3.53	+0.01	-0.04	-0.07	-1.38
	10/08	8.500	137.8800	3.76	-	-0.08	-0.13	-1.40
	04/29	5.500	113.4200	4.66	+0.02	-0.10	-0.10	-1.07
Germany	08/00	4.000	101.3100	3.03	+0.01	-0.09	-0.18	-1.00
	10/05	6.500	116.9900	3.41	-	-0.10	-0.10	-1.38
	07/08	4.750	107.4700	3.79	-	-0.06	-0.08	-1.40
	01/28	5.625	114.9900	4.67	+0.02	-0.20	-0.10	-1.07
Greece	03/00	9.600	99.7040	10.01	-0.05	-4.80	-0.23	-4.64
	03/08	8.600	115.1747	6.35	+0.07	-4.17	-0.97	-4.11
Ireland	10/01	6.500	108.6800	3.18	-0.01	-0.08	-0.20	-1.68
	09/08	6.000	116.1500	3.94	+0.02	-0.08	-0.14	-1.47
Italy	04/01	4.500	102.9600	3.11	-0.03	-0.16	-0.20	-1.86
	07/03	4.500	104.6800	3.37	-	-0.07	-0.13	-1.87
	05/08	5.000	108.5600	3.89	-	-0.09	-0.16	-1.55
	11/27	6.500	127.0000	4.73	-	-0.18	-0.25	-1.19
Japan	12/00	6.900	112.1160	0.58	-0.10	-0.23	+0.05	-0.06
	12/03	4.100	113.0540	1.18	-0.17	-0.34	+0.38	-0.05
	06/08	1.800	101.1500	1.67	-0.17	-0.33	+0.58	+0.03
	03/18	2.700	104.1160	2.40	-0.18	-0.34	+0.69	-0.06
Netherlands	05/00	9.000	107.5900	3.09	-	-0.11	-0.15	-1.08
	07/08	5.250	110.5700	3.88	-	-0.08	-0.10	-1.25
New Zealand	02/01	8.000	105.4826	5.18	-0.03	-0.01	+0.29	-2.51
	07/09	7.000	111.4298	5.55	-	+0.08	+0.11	-1.24
Norway	05/01	7.000	103.0500	5.57	-0.06	-0.19	-2.83	+1.27
	01/07	6.750	110.5000	5.12	-0.03	-0.22	-0.26	-0.27
Portugal	03/00	5.375	102.4800	3.23	+0.01	+0.08	+0.03	-1.34
	06/08	5.375	110.8600	3.97	+0.05	-0.08	-0.23	-1.52
Spain	04/00	6.750	104.4700	3.03	-0.02	-0.06	-0.18	-1.43
	01/08	6.000	115.4000	3.94	+0.04	-0.04	-0.19	-1.43
Sweden	05/00	10.250	109.5950	3.39	-0.06	-0.14	-0.18	-1.89
	05/08	6.500	118.0960	4.00	-0.02	-0.15	-0.33	-1.72
Switzerland	06/00	4.500	104.1200	1.51	+0.02	+0.04	+0.05	-0.20
	01/08	4.250	115.4000	2.33	+0.01	-0.03	+0.08	-0.85
UK	11/01	7.000	106.2300	4.62	-0.10	-0.08	-0.21	-2.03
	12/02	6.500	109.7400	4.29	-0.08	-0.05	-0.29	-1.93
	10/08	9.000	137.2800	4.28	-0.04	-0.08	-0.30	-1.82
	12/28	6.000	128.8700	4.26	-	+0.02	-0.15	-1.77
US	09/00	4.500	99.7013	4.68	-0.01	+0.07	+0.15	-0.78
	08/03	5.250	102.2829	4.69	+0.01	+0.05	+0.16	-0.84
	05/08	5.625	105.8328	4.84	+0.03	+0.11	+0.17	-0.89
	08/28	5.500	102.5176	5.33	+0.07	+0.15	+0.23	-0.53

London closing. * New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jan 7	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.05	+1.21	+0.28	Netherlands	3.93	+0.09	-0.84
Austria	4.04	+0.20	-0.73	New Zealand	5.55	+1.71	+0.78
Belgium	4.05	+0.21	-0.72	Norway	5.11	+1.27	+0.34
Canada	4.95	+1.11	+0.18	Portugal	4.00	+0.16	-0.77
Denmark	4.02	+0.18	-0.75	Spain	4.03	+0.19	-0.74
Finland	3.93	+0.09	-0.84	Sweden	4.01	+0.17	-0.76
France	3.81	-0.03	-0.96	Switzerland	2.44	-1.40	-2.33
Germany	3.84	-	-0.93	UK	4.28	+0.44	-0.49
Greece	6.34	+2.50	+1.57	US	4.77	+0.93	-
Ireland	3.98	+0.14	-0.79				
Italy	3.90	+0.06	-0.87				
Japan	1.68	-2.16	-3.09				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jan 7	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	94.2284	5.16	-0.11	-1.92	+4.54
Poland	07/04	7.125	BBB-	105.3953	5.93	+0.05	-0.37	+1.30
Russia	06/07	10.000	n/a	29.3590	38.89	-2.78	-2.92	+34.18
LATIN AMERICA								
Argentina	09/27	9.750	BB	89.7500	10.92	+0.19	-0.16	+5.74
Brazil	05/27	10.125	BB-	66.5000	15.34	+1.11	+0.88	+10.16
Mexico	05/26	11.500	BB	109.3000	10.48	+0.10	-0.40	+5.30
ASIA								
China	07/06	7.750	BBB+	103.9567	7.04	-0.38	+0.04	+2.35
Philippines	10/16	8.750	BB+	97.9541	8.98	+0.08	-0.02	+4.05
Thailand	04/07	7.750	BBB-	97.9027	8.10	+0.31	-0.20	+3.20
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	104.2818	6.09	+0.16	-0.66	+1.50
South Africa	10/06	8.375	BB+	93.3831	9.61	+0.83	-0.07	+4.92
Turkey	09/07	10.000	B	89.6340	11.96	+0.38	+0.63	+7.25
BRADY BONDS								
Argentina	03/23	5.750	BB	72.8750	8.70	+0.13	+0.01	+3.61
Brazil	04/14	5.000	BB-	58.7500	14.21	+0.75	-0.92	+9.32
Mexico	12/19	6.250	BB	79.2500	8.36	+0.10	-0.25	+3.36
Venezuela	03/20	6.750	B+	72.2500	9.90	-0.36	-2.20	+4.88

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	112.65	112.25	+0.04	112.65	112.21	28,264	92,790

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Feb	Calls Mar	Calls -	Puts Feb	Puts Mar	Puts -
109	3.48	3.82	-	0.02	0.17	-
110	2.54	2.76	-	0.07	0.29	-
111	1.65	1.97	-	0.19	0.51	-
112	0.94	1.32	-	0.47	0.85	-

Est. vol. total, Calls 6,160 Puts 3,050. Previous day's open int., Calls 7,467 Puts 8,570.

Germany

NOTIONAL GERMAN BOND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	116.85	116.63	-0.15	117.06	116.50	443,523	281,447

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Feb	Calls Mar	Puts Feb	Puts Mar
11650	0.45	0.79	0.35	0.64
11700	0.22	0.55	0.57	0.90
11750	0.08	0.37	0.94	1.22

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109.14	109.06	+0.03	109.18	109.02	110,800	173,417

NOTIONAL LIFE SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		101.79	+0			0	986

NOTIONAL LIFE SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102.70	102.42	-0.07	102.70	102.70	40	500

Also traded on APT. All Open interest figs. are for previous day

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	114.85	114.67	-0.09	115.00	114.64	5910	36864

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Feb	Calls Mar	Puts Feb	Puts Mar
11450	0.39	0.65	0.22	[illegible]
11500	0.16	0.42	0.49	0.75
11550	[illegible]	[illegible]	[illegible]	[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) [illegible]

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE)

Euro

EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	112.20	112.20	-	112.45	112.20	102	240

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Jan 7	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Spread v Govts
EURO $								
EIB	04/07	7.250	AAA	112.1273	5.30	+0.02	+0.16	+0.6[illegible]
ABN Amro	06/07	7.125	AA-	104.9650	6.34	+0.02	+0.05	+1.83
Quebec	01/07	7.000	A+	107.0967	5.69	+0.02	+0.16	+1.17
Citicorp FRN	02/04	5.312	AA-	94.7724	6.52	+0.01	+0.10	+1.[illegible]

UK BONDS

FTSE Actuaries Government Securities

[illegible]

UK GILTS PRICES

[illegible]

ndian power
roup may
ssue bond

CURRENCIES & MONEY

Dollar takes look over edge of abyss

MARKETS REPORT

By Alan Beattie

The dollar flirted with collapse again yesterday, dipping below Y110 against the yen amid heavy selling and attempts to cash in on options around that level.

Rumours also circulated that the Bank of Japan intervened to depress the yen as it dipped below the Y110 level, despite official reassurances that the authorities were content with the yen's strength.

The dollar then recovered somewhat, closing in London against the yen little changed from the previous day at Y111.1. But with currency analysts busy revising down their short-term forecasts for the dollar-yen rate, few believe that the dollar could stage a rapid recovery in the immediate future.

The sudden movements of the dollar were widely linked to positions in the options market. Reports circulated that there was heavy buying of dollars just above Y110 to defend a knock-out option priced at that level.

■ The sudden strength of the yen has taken many analysts by surprise. ABN-Amro and Warburg Dillon Read have both revised down their short-term currency forecasts for the dollar against the yen this week.

"The bias to the dollar-yen rate remains lower," said Paul Meggyesi, currency strategist at Deutsche Bank in London. "Expectations of yen movements often tend to be adaptive, and once the yen starts to rise it generally keeps going."

Mr Meggyesi said that Japanese exporters were likely to increase the movement by selling dollars forward to protect their revenue. "We could easily see an overshoot down to Y100-105 before the yen starts to weaken again," he said.

The Y110 level has often been cited as a likely intervention point for the Bank of Japan, but few were prepared to stick their neck out and say that the Bank had definitely been intervening yesterday.

"The Bank of Japan is more likely to try to talk the yen lower in the first instance," said Mr Meggyesi. "It seems improbable they would intervene directly in the markets without trying a little jawboning first."

■ *The Bank of England took most economists, but apparently not most money market traders, in London by surprise yesterday by cutting repo rates by 25 basis points to 6 per cent.*

Money market traders said that the cut was priced in by the markets, at odds with polls of economists who generally expected no change this month.

A similar divergence of opinion was evident before the cut in December, and once again sterling showed its resilience to cuts in repo rates, closing little changed against the dollar at $1.650 and unmoved against the euro at £0.708.

But the move clearly impressed traders in the short sterling market, which sliced between 10 and 17 basis points off expected interest rates all the way down the strip.

Recently, contracts at the front end of the strip have moved little while those at the back end have risen substantially, implying a marked flattening of the UK's interest rate path, for no apparent reason.

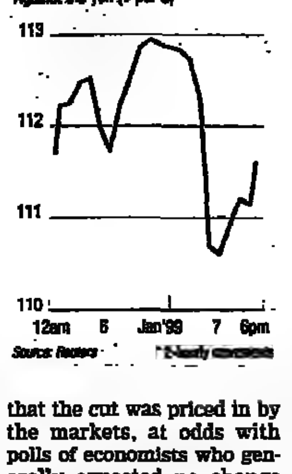
■ *One of the brightest performers so far this year has been the Swedish krona, which strengthened again yesterday against the euro.*

From a level of around SKr9.4 against the euro (inferred from the D-Mark rate) towards the end of 1998, the krona broke above SKr9.2 yesterday before closing at the end of London hours at SKr9.207.

Ian Gunner, currency analyst at ABN-Amro in London, said the krona could continue to strengthen if the markets perceived a higher chance of early Swedish entry into European monetary union (Emu). This would bolster the currency, whose fair value and its likely Emu entry value is around SKr8.5-8.7, he said.

"Public opinion in Sweden is shifting in favour of Emu entry," said Mr Gunner. "The Social Democrats have brought forward the party congress on which they will decide Emu policy to the beginning of 2000. A referendum on Emu, which was previously not due until 2001, could take place as early as next year."

Dollar
Against the yen (Y per $)



Source: Reuters

■ POUND IN NEW YORK

Jan 7	— Latest —	— Prev. close —
£ spot	1.6495	1.6555
1 mth	1.6480	1.6540
3 mth	1.6460	1.6517
1 yr	1.6446	1.6495

■ OTHER CURRENCIES

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

INTERNATIONAL CURRENCY RATES

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Est. vol. total, Calls 44979 Puts 26765. Previous day's open int., Calls 432812 Puts 433288

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	●Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	6.00	Smith & Williamson	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk	6.25	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.25	Unity Trust Bank Plc	6.00
Bank of India	6.25	●SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00		
●Brown Shipley & Co Ltd	6.25	●Leopold Joseph & Sons	6.25		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.25		
The Co-operative Bank	6.00	NatWestminster	6.00		
Coutts & Co	6.00	●Rea Brothers	6.00		
Cyprus Popular Bank	6.25	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.25	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

Statoil in talks on selling gas to Poland

By Valeria Sköld in Oslo

Statoil, Norway's state-owned oil company, is in talks to sell Norwegian gas to the Polish Oil and Gas Company in a deal that could lead to the building of a $1bn pipeline.

Statoil is negotiating a short-term sale of 500m cubic metres of gas to Poland annually, starting in 2000, on behalf of Norwegian oil companies Norsk Hydro and Saga Petroleum, as well as Total and Elf Aquitaine, the French oil companies.

A deal would mark Statoil's first gas sale in the Polish market. More importantly, it could lead to increased sales to the country and hence the need for a new pipeline, provided the oil price improves, new gas fields are developed and the demand for gas in Poland continues, said Egil Haaland, Statoil's natural gas marketing manager for eastern and central Europe.

The gas owners will initially require no additional investment as they plan to use the spare capacity available through the two Europipe gas trunklines, running from western Norway to Emden, Germany.

If the two sides agree on longer-term sales, the companies may need to build a 1,000 km under-sea pipeline from either Karsto or Kollsnes, in western Norway, to Nechorze on the north-west coast of Poland, said Mr Haaland. However, he stressed that a new pipeline depended on many factors and would not materialise before 2005.

● Texaco, the New York-based oil company, has discovered "several hundred million barrels of recoverable oil" in Nigeria, according to Reuters. The oil, from preliminary tests, was found at the Agbami-1 well this week, some 70 miles offshore from the Niger Delta.

South African fruit marketers in merger

By Victor Mallet in Johannesburg

This month's merger of Unifruco and Outspan International, the South African fruit exporters, has created a powerful fruit marketing group called Capespan.

The group will rank among the top five in the world and have a turnover of about $1bn a year from sales of 700,000 tonnes of produce.

Capespan executives say they will benefit from lower costs following the rationalisation of the two groups and will be able to offer a year-round service to big buyers, such as the UK's Tesco and Sainsbury supermarket chains.

Previously, Unifruco, which sold mainly deciduous and tropical fruit, and Outspan, which focused on citrus fruits, each had quiet out-of-season periods at different times of the year, so they complement each other well.

The merger came into effect on January 1 and was agreed four years after the two companies decided to combine their European operations into Capespan International.

In a related deal announced on December 24, Fyffes, the Dublin-based company that supplies bananas and other fruits, will buy half of Capespan International and take a 10 per cent stake in the Cape Town-based parent company. As payment, Capespan will receive Fyffes shares and cash over three years worth I£40m (€52m, $27m).

Until the end of apartheid and South Africa's first democratic election in 1994, the country's fruit exports were restricted by international economic sanctions. The trade was also tightly controlled by the state until it was deregulated in 1997.

Now, according to John Stanbury, managing director, Capespan has "a major opportunity to become a competitive global player".

Following the merger, Capespan is possibly the world's largest fruit marketing group not involved in bananas. "This has given us a tremendous advantage in costs," said Mr Stanbury. Administrative staff will be cut by about a quarter and shipping expenses can be reduced by co-ordinating shipments.

"We wanted to ensure that we are a 12-month total-fruit-basket operation to supply products to our customers. We are going to have greater synergies and are going to save a lot of money," said Fred Meintjies, Capespan's corporate affairs manager.

Capespan already sources some of its supplies from the Americas but still provides the bulk of its produce from South Africa. It accounts for about 80 per cent of the South African trade in deciduous fruits and 70 per cent of the country's citrus, but is facing competition in South Africa from international rivals and from the new domestic companies that sprang up after deregulation.

South Africa's fruit growers and marketers are waiting impatiently for the conclusion of a long-delayed free trade agreement with the European Union, which would reduce import duties in their most important market.

One of the curiosities of the present European tariff regime is that it penalises most heavily those perishable fruits – such as grapes, plums and apricots – that provide the least competition to northern hemisphere growers because of different seasons.

Capespan says it has assets of more than R400m ($69m) following the merger and will be marketing nearly 100m cartons of fresh fruit, wine and juice a year.

Success of Argentine mining on test

Alumbrera has to overcome more than just depressed metal prices, writes **Ken Warn**

With gold and copper prices plumbing the depths and a row raging over royalties, now is perhaps not the ideal time to be taking over Argentina's flagship mining project, the $1.2bn Bajo de la Alumbrera open-cast mine.

However, Australian mining executive Karen Field, who took over as president of Minera Alumbrera in June, appears unperturbed by the task of starting to wring profits from the mine amid the most depressed metals prices for years.

"At these prices, a number of producers will simply drop out. In this environment we have got to cut costs – and that's the project I am embarked on at the moment," she says.

Alumbrera, which dwarfs the country's other mining projects, has been in production for a year but getting this far has not been easy. The scheme over-ran its original budget by about $400m, and ramping up production has been too slow for some industry analysts.

"There is no way with a project of this size and complexity you can simply switch on the tap and get optimal production. There are bound to be teething problems, not least in a country with no tradition of large-scale mining and with a totally green workforce," says Mrs Field.

The mine is "working towards" an annual production rate of 640,000 ounces of gold and 180,000 tonnes of copper in its next financial year, starting in June, figures only slightly below the original peak-year targets.

The future of mining in Argentina may well be riding on the success of Alumbrera. Only in the 1990s has the country been able to begin exploiting its huge mining potential.

Argentina has a larger share of the metals-rich Andean Cordillera than neighbouring Chile but for decades barriers to foreign investment in "strategic" industries combined with political and economic instability to deter investors.

Reform of the country's mining laws in 1993 with the aim of ensuring tax stability encouraged a wave of investment, led by Alumbrera's owners MIM Holdings and North, both of Australia, and Rio Algom of Canada.

Constructing the mine and its transport infrastructure was a mammoth undertaking, hindered by the hostile environment of Catamarca, a poor, remote north-western province.

Crushed ore is pumped as a soupy concentrate 316km from the mine to a filtration plant in Tucumán province before being shipped almost another 1,000km by rail to port near the city of Rosario.

The concentrate pipeline, the longest in the world, had to be re-routed, driving up costs, but it has performed well from the beginning, says Mrs Field, confounding the doubts of some analysts.

However, overcoming such technical and logistical difficulties has not solved all Alumbrera's problems.

The Catamarca authorities claim that under provincial law they are entitled to levy a higher royalty on production than the 3 per cent laid down by national mining law.

The national law envisages a royalty on the traditional industry basis of net pit-head value, excluding up-front mining costs. Catamarca wants to work on the basis of gross value, a distinction that could cost Alumbrera's owners $10m a year.

Mrs Field says there is a recognition that the dispute needs to be resolved.

"The country has to understand that if it doesn't abide by clear investment rules then the investment dollar will take flight elsewhere in Latin America," she says.

The uncertainty generated by the dispute has also affected exploration activities in Argentina, already sharply curtailed because of lower international metals prices.

"If there is a smaller exploration pool, it will go to an environment where if you discover anything it's going to be easier to develop," Mrs Field says. In Chile "there is certainty and clarity in terms of mining investment law".

As the head of the most high-profile project in a traditionally male-dominated industry in a male-dominated society, Mrs Field has provoked considerable curiosity locally. "But there have been absolutely no problems," she says.

Karen Field: confident the mine will meet its obligations

Argentina's handful of women leaders of large companies have almost invariably reached their current positions by virtue of family connections.

"But Argentina will change, probably through the next generation," says Mrs Field. "We have a lot of very bright women who are keen to make their career in mining."

She has no shortage of ambition for her stay at the head of Alumbrera. "I hope to leave a legacy of a highly efficient organisation that is recognised worldwide for its management of assets and of people," she says.

She is also confident the mine will meet its obligations to its bankers and shareholders. But after being asked when the mine, which has a projected 20-year life, will start making money, she answers: "I'm not prepared to answer that right now."

In the meantime, however, there are some less worldly compensations. Alumbrera "has the most beautiful location of any mine I have ever seen", she says.

Reports of output cuts lift nickel

MARKETS REPORT

By Gillian O'Connor, Robert Corzine and Paul Solman

On the London Metal Exchange, nickel prices climbed by nearly 5 per cent. The recovery was attributed to recent reports of a production cut at the Larco mine in Greece, problems at the Australian laterite projects and rumours of damage to Western Mining's nickel smelter.

Oil prices softened early yesterday as the momentum triggered by Wednesday's late technical rally began to dissipate but recovered towards the close of trading.

Brent Blend for February delivery was down just 1 cent at $11.45 a barrel in late trading on London's International Petroleum Exchange.

Wednesday's technical rally was prompted in part by cold weather in the US and a sharp year-end fall in US crude stocks but the markets continue to be affected by bearish fundamentals.

Yesterday there were reports that recent Iraqi exports have reached about 2.2m barrels a day, considerably higher than the country's assumed "sustainable" export capacity of 1.8m to 1.9m b/d. A steady rise in Iraqi exports has been one of the main reasons behind the collapse in crude prices.

Robusta coffee futures slowed their descent after Wednesday's sharp drop of $74, but traders remained bearish. The benchmark March contract ended at $1,743 a tonne, $5 lower than Wednesday's close.

On the cocoa market, the March contract rose £5 to close at £916 a tonne. Fundamental news included reports that Nigeria's cocoa outlook had improved. The 1998-99 crop from the world's fourth-largest producer is put at up to 150,000 tonnes – on a par with the previous season.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

[illegible]	[illegible]

Precious Metals continued

[illegible]	[illegible]

ENERGY

[illegible]	[illegible]

PRECIOUS METALS

[illegible]	[illegible]

GRAINS AND OIL SEEDS

[illegible]	[illegible]

PULP AND PAPER

[illegible]	[illegible]

FUTURES DATA

All futures data supplied by CMS.

Wool from Mallett & Co

British wool was auctioned in Bradford this week, the first market test since the New Year recess. There was good demand, and a 95 per cent clearance of the 2,769,000 kg offered. Price comparisons for Scottish wool show increases of about 5 to 7.5 per cent. English wools were also on offer at this predominantly Scottish sale and prices show little change from December. This seems to show nothing drastically different happening to pre-Christmas closing prices in Australia and New Zealand next week. A longer-term forecast by an official body in Australia sees little chance of a price rise for wool in 1999.

SOFTS

[illegible]	[illegible]

INDICES

[illegible]	[illegible]

MEAT AND LIVESTOCK

[illegible]	[illegible]

LONDON TRADED OPTIONS

[illegible]	[illegible]

LONDON SPOT MARKETS

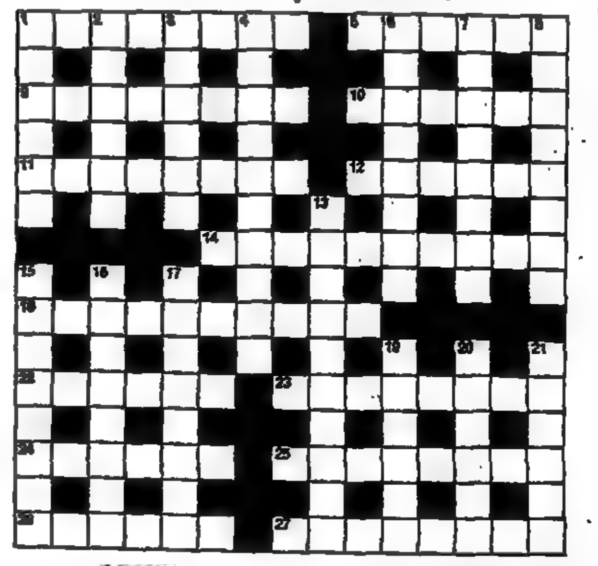
[illegible]	[illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,882 Set by ADAMANT



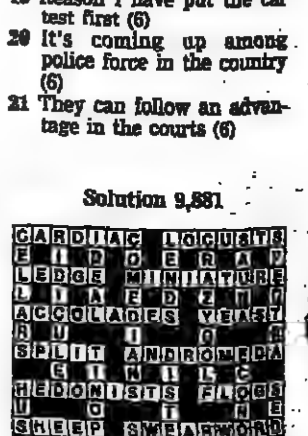
ACROSS

1 A member of parliament with power, lost without light support (8)
5 Dangerous time for extremely clever goddess (6)
9 Thanks to new entrance, I can get Indian cooking (6)
10 Trust is broken about eastern states (6)
11 I've returned to study the church testimony (8)
12 Averse to the cold formality of the bureau (6)
14 The less obvious qualities of the loan I settle freely (10)
18 Exuberance of initially energetic beast disturbs niece (10)
22 Impure, corrupt judge (6)
23 It attracts the attention of Cyrano, without his musketeers for certain (8)
24 Pretend to be in spasm – it's a ploy (6)
25 One tract is about having imagination and taste (8)
26 Signed away the pattern (6)
27 Inherent qualities of perfumes (8)

DOWN

1 I for example can be a landlord (6)
2 Creature that makes man sit up (6)
3 Fake penny, sweetheart (6)
4 The way the Ulster police set up outside old town buildings (10)
6 Agreed it could be expensive to carry if it all comes up (8)
7 Remedy with a special application (8)
8 To go to court about the Sun writers excited uncertainty (8)
13 Places to keep neat before the sale (10)
15 Headed opponent again, which destroyed the argument! (8)
16 Omens of Gold for Scary and Baby maybe? (8)
17 Trifling in another way? (8)
19 Reason I have put the car test first (6)
20 It's coming up among police force in the country (6)
21 They can follow an advantage in the courts (6)

Solution 9,881



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FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

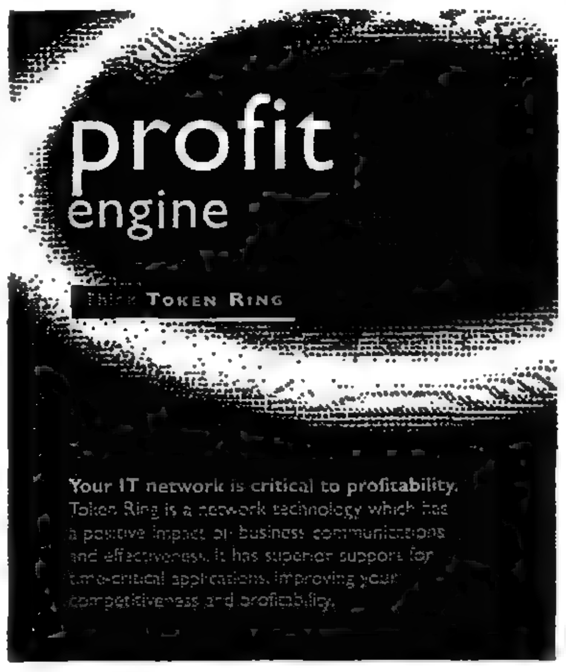
JERSEY (FSA RECOGNISED)

Christmas Investments Plc

Lazard Investment Funds Ltd

Coutts Fund Managers Limited

Lazard Investment Funds Ltd - Contd.



rger

Reports of output cuts lift nickel

MARKETS REPORT

CROSSWORD

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

FT Free Annual Reports Club

FT Cityline

The FT web site

LONDON STOCK EXCHANGE

Equity market surge stalled by profit-taking

MARKET REPORT

by Steve Thompson, UK Stock Market Editor

Some of the heat generated by takeover fever on both sides of the Atlantic was removed from London's equity market yesterday despite the decision of the Bank of England's monetary policy committee to sanction a 25 basis points reduction in UK interest rates.

The rate cut, the fourth in as many months, came as a mild surprise to the stock market, where most observers had been expecting the committee to wait until next month before moving again.

The committee said the cut was made because domestic data and survey evidence continued to show a slowdown in the economy.

The about-turn in the market place came as profit-takers moved in to take advantage of the gains of the previous two sessions, which took the FTSE 100 up 269.4 or 4.6 per cent.

Dealers said there were other compelling reasons behind the decline, which mainly hit the leaders.

There was bad news from Brazil, where one of the country's states announced a 90-day moratorium on debt repayments to the central government, a move which reminded investors of the turmoil in emerging markets last year.

And President Bill Clinton faced the first stages of his impeachment trial in the Senate.

Just as it was Wall Street that triggered London's surge, it was the expectation that the US market would come in weaker yesterday that was also instrumental in driving down London stock prices.

The Dow Jones Industrial Average, which hurtled past the 9,500 mark to a record on Wednesday, dropped sharply at the outset yesterday, posting a decline of around 50 points as London closed.

At the end of the session, the FTSE 100 index was left with a 47.6 decline, although it just managed to close above the 6,100 level.

At its worst, minutes after Wall Street began trading, Footsie posted a three-figure decline and briefly looked like threatening 6,000.

Sentiment in the market's mid- and small-cap stocks was much more confident. The FTSE 250 dipped into negative territory during the early afternoon but rallied well as Wall Street came off its worst levels, finishing 2.3 firmer at 4,946.7.

By far the best performance of the FTSE indices came from the SmallCap index, which maintained its momentum all day and finished 9.6 higher at 2,119.6, only a fraction below its session high of 2,120.

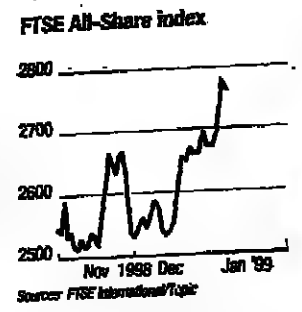
Dealers said a lot of the London market's substantial gains in recent sessions was a reflection of the return to the market of some of the big institutions that had curtailed their trading activity in the run-up to the launch of the euro.

And some strategists repeated their long-standing warnings about earnings disappointments, which will begin to affect the market as companies with a calendar year-end report over the next couple of months.

"The market will be very volatile in coming months," cautioned David McBain, UK equity market strategist at BT Alex Brown.

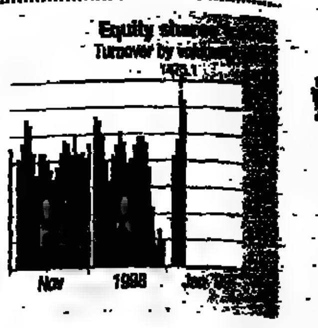
Turnover in equities was a hefty 1.25m shares and featured heavy activity across the board in the leading stocks, plus British Steel.

FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded Turnover by volume



Indices and ratios

FTSE 100	6101.2	-47.5	FT 30	3632.6	-37.0
FTSE 250	4946.7	+2.3	FTSE Non-Fins p/e	23.95	24.00
FTSE 350	2867.8	-18.6	FTSE 100 Fut Dec	6150.0	-45.0
FTSE All-Share	2764.57	-16.74	10 yr Gilt yield	4.42	4.77
FTSE All-Share yield	2.83	2.82	Long gilt/equity yld ratio	1.59	1.38

Best performing sectors

1 Tobacco +3.3
2 Retailers Food +2.2
3 Breweries Pub & Rest +1.6
4 Support Services +1.4
5 Diversified Industrials +1.1

Worst performing sectors

1 Oil Exploration & Prod -2.9
2 Electronic & Elect Equip -2.4
3 Telecommunications -2.2
4 Household Goods & Texts -2.0
5 Transport -1.5

Traffic figures hit BA

COMPANIES REPORT

By Martin Brice, Peter John and Joel Kibazo

British Airways suffered one of the worst performances in the Footsie as analysts produced a series of savage downgrades prompted by closer analysis of poor traffic figures.

The company now appears to be operating in an environment that is deteriorating so quickly that at least one analyst has suggested it may incur a loss in the second half.

Analysts' consensus pre-tax profits forecasts for BA have fallen from £700m to just £300m in the past five months. Yesterday the strength of downgrades suggested that consensus figure would fall further, perhaps to £250m.

The poor sentiment was prompted by traffic figures that showed BA continued to lose premium passengers.

Mounting investor fears of the effect of a global economic slowdown have combined with a series of unremittingly gloomy statements from the company in the past few months to leave the stock underperforming the FTSE 100 by 60 per cent since June. The shares, which closed down almost 6 per cent or 23½ at 388½p, have plunged since they traded around the 700p level last year.

Forecasts for the year to March were being adjusted to a range of £207m-£308m, with most brokers tending towards the bottom of the range.

Declan Magee at ABN Amro yesterday told clients that a one percentage point decline in passenger volumes or yields would result in a 20 per cent decline in operating profit.

"It is not difficult to see how the airline may do no better than break even or even lose money in the next financial year if conditions continue to deteriorate." He has cut this year's forecast by £50m to £250m, and next year's by £70m to £310m. Commerzbank Global Equities chopped its forecast for the year to 2000 from £635m to £400m.

Embattled oil stocks failed to take any solace from a sharp revival in the underlying oil price. Some of the hard-hit exploration and production stocks slipped further into the danger zone.

Lasmo, which has become the main focus for investors' unhappiness because of concerns about the fundamental health of the balance sheet, fell to its lowest level for almost 12 years.

The shares, which were trading around 250p at the start of last year, moved down 4½ to 87½p yesterday, a slide of almost 5 per cent.

Lasmo has begun a rearguard action to defend its sliding share price. Finance director Paul Murray said he was actively putting the case about the relative strength of the financial position.

And he condemned the attack on the stock as "a misunderstanding of the position and a reaction to the short-termism coming out of a very weak oil market". He added that there was a substantial cash reserve and thus "no prospect of a rights issue".

Dealers said the prospect of the company announcing a rights issue remained as underlying oil price forecasts for 1999 started to fall to around $12 a barrel.

The general reduction offset a sharp rise in the price of Brent in late Wednesday trading, which was, nevertheless, dismissed as a technical rally.

Lasmo was not the only casualty in the sector. British-Borneo lost 5 at 91p, Burmah 35 to 875p and Enterprise 10 to 283p.

Fears for the future of its cruises business saw P&O suffer the worst performance in the Footsie.

The stock closed off almost 6 per cent or 38½ to 635p. The company said its P&O Cruises (UK) subsidiary's average load factors were 95.8 per cent in the fourth quarter, down from full capacity in the same period last year. House broker WestLB Panmure moved its forecast for pre-tax profits from £413m for this year to £395m and from £480m to £450m for next.

P&O yields down

The company said yields in its cruising business were not up to last year's "exceptional" level, prompting suggestions from analysts that expanded capacity was affecting yields.

There was also talk that P&O might be a bidder for Norwegian Cruise Lines, after its shares surged.

Mortgage lenders led the market's retreat as they suffered intensifying pressures from two angles.

The reduction of base rates by 25 basis points to 6 per cent is expected to narrow the lenders' spreads.

Also, Credit Lyonnais Securities highlighted the latest lending figures announced by Standard Life, the latest competitor in an increasingly savage market.

"It is a major competition issue and a direct threat to the returns [of the established lenders] which we see as unsustainable," said James Johnson of Lyonnais.

The broker reiterated its sell stance on Woolwich and Halifax and said it expected to revise its forecast after the full-year figures towards the end of February. Halifax fell 33½ to 818p, Woolwich 4 to 343½p and Abbey National 59 to £12.99.

Food retailer Tesco moved against the poor market after joint broker Morgan Stanley Dean Witter was said to have upgraded the stock to "strong buy".

In brisk trade that brought turnover of 26m, the shares hardened 5½ to 169¾p.

Dealers said the broker regards Tesco as the best player among British food retailers and a note from Morgan Stanley is believed to show central European operations will add between one and three per cent to group growth in the next financial year. A trading update is expected from Tesco later this month.

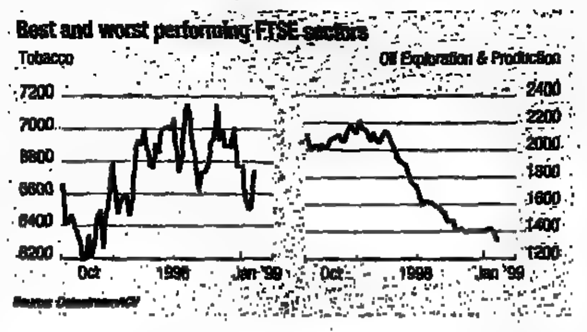
Rio Tinto, one of the world's biggest mining companies, fell back after J.P. Morgan reduced its earnings forecast for the company by 13 per cent.

The broker lowered its current-year earnings per share estimate from 49p to 42.8p and said, with classic restraint: "Rio is not expected to outperform during the first half of this year." It closed 8½ down at 711p.

Arbitrage remained the strong feature in Vodafone, which proposes a merger with US group AirTouch. It eased 18¼ to £10.75¼ after trade of 24m. Lehman Brothers remains positive on the sector and regards Vodafone as its "favourite mobile investment".

United Biscuits was the worst performer in the FTSE 250, the shares losing 16 to 221p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Jan 7	Jan 6	Jan 5	Jan 4	Dec 30	Yr ago	*High	*Low
FT 30	3632.6	3669.6	[illegible]	3509.2	3551.3	3375.2	4004.9	2790.6
Ord. div. yield	2.84	2.81	[illegible]	2.94	2.93	3.32	4.22	2.72
P/E ratio net	23.64	23.89	23.17	[illegible]	22.88	[illegible]	25.41	15.80
P/E ratio nil	23.54	23.79	23.08	22.74	22.80	21.53	25.16	15.71

FT 30 since compilation: high [illegible] low [illegible] Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3658.8	3644.8	3658.5	3649.9	3630.8	3607.4	3624.5	3624.2	3674.3	3602.1

STOCK MARKET TRADING DATA

	Jan 7	Jan 6	Jan 5	Jan 4	Dec 30	Yr ago
SEAQ bargains	67,212	67,857	74,463	76,751	26,259	64,719
Equity turnover (£m)†	-	5283.0	4432.4	3826.2	1196.2	1712.8
Equity bargains†	-	76,841	84,849	59,670	20,335	49,764
Shares traded (m)†	-	1258.5	[illegible]	746.4	298.7	523.7
Total market bargains‡	-	96,424	76,158	69,364	3,402	-
Total turnover (£m)‡	-	8412.8	6588.0	4706.8	820.8	-
Total shs traded (m)‡	[illegible]	1493.0	1162.5	894.1	[illegible]	-
Tradepoint turnover (£m)	37.5	42.1	33.4	8.2	4.0	[illegible]
Tradepoint shrs traded(m)	12.2	16.5	12.4	3.9	0.7	5.0

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	651	Total Highs	112	Total contracts	59,289
Total Falls	882	Total Lows	43	Calls	30,120
Same	1,291			Puts	29,169

Jan 7 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6195.0	6150.0	-45.0	6210.0	6070.0	30255	180634
Jun		6193.0	-45.0			0	14290

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		4993.0	+3.0			0	[illegible]

FTSE 100 INDEX OPTION (LIFFE) (*6101) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday

[illegible]

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Jan 7) 1 € = 13.7603 Sch

BELGIUM/LUX (Jan 7) 1 € = 40.3399 Frs

FINLAND (Jan 7) 1 € = 5.94573 Mka

FRANCE (Jan 7) 1 € = 6.55957 Frs

GERMANY (Jan 7) 1 € = 1.95583 Dm

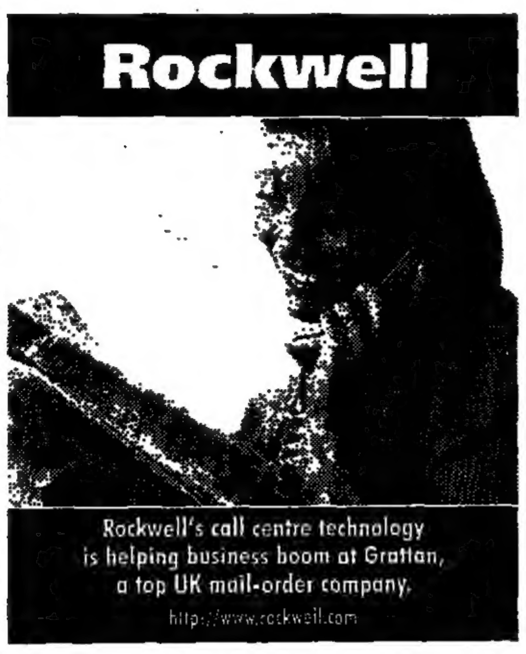
IRELAND (Jan 7) 1 € = 0.78756 Punt

ITALY (Jan 7) 1 € = 1936.27 Lire

NETHERLANDS (Jan 7) 1 € = 2.20371 Fl

PORTUGAL (Jan 7) 1 € = 200.482 Esc

SPAIN (Jan 7) 1 € = 166.386 Pta



EUROPE (NON-EMU)

CZECH REP (Jan 7 / Korun)

DENMARK (Jan 7 / Kr)

GREECE (Jan 7 / Drachma)

NORWAY (Jan 7 / Kroner)

POLAND (Jan 7 / Zloty)

SWEDEN (Jan 7 / Kronor)

SWITZERLAND (Jan 7 / Frs)

TURKEY (Jan 7 / Tk Lira)

PACIFIC

JAPAN (Jan 7 / Yen)

AUSTRALIA (Jan 7 / Aus$)

HONG KONG (Jan 7 / H.K.$)

INDONESIA (Jan 7 / Rupiah)

MALAYSIA (Jan 7 / MYR)

NEW ZEALAND (Jan 7 / NZ $)

SINGAPORE (Jan 7 / S$)

SOUTH KOREA (Jan 7 / Won)

TAIWAN (Jan 7 / TW $)

THAILAND (Jan 7 / Baht)

AMERICAS

CANADA

TORONTO (Jan 7 / Can $) 4 pm close

MONTREAL (Jan 7 / Can $) 4 pm close

MEXICO (Jan 7 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Jan 7 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY JANUARY 6 1999: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JANUARY 5 1999: US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (76)	207.86	2.5	186.07	147.93	204.22	219.71	1.4	3.33	202.71	181.52	143.01	198.08	216.76	219.95	163.86	199.52
Austria (21)	186.88	-0.5	167.29	133.00	182.01	182.01	0.0	2.15	187.89	168.25	132.56	182.01	162.01	263.73	168.45	192.73
Belgium (22)	445.20	-0.4	398.53	316.85	377.88	377.88	0.1	1.79	446.95	400.23	315.32	377.31	377.31	446.95	250.39	261.37
Brazil (32)	136.45	2.7	122.15	97.11	134.06	303.77	2.8	2.98	132.87	118.99	93.74	129.84	295.57	269.34	102.88	238.02
Canada (117)	213.93	3.2	191.51	152.25	210.18	233.88	2.4	1.87	207.29	185.62	146.24	202.58	228.31	248.78	158.94	212.37
Denmark (34)	513.89	-0.1	460.03	365.73	504.89	444.10	0.4	1.58	514.69	460.89	363.11	502.94	442.52	537.33	420.12	482.35
Finland (29)	613.24	-0.5	548.96	436.44	652.87	652.87	0.0	1.54	616.56	552.12	434.90	652.07	652.87	618.56	267.58	267.82
France (75)	354.45	1.8	317.29	252.26	311.17	311.17	2.3	2.02	348.35	311.94	245.76	304.17	304.17	354.45	225.24	238.97
Germany (55)	302.76	2.8	271.02	215.47	262.85	–	0.0	1.28	294.43	263.66	207.72	254.05	–	325.61	218.59	231.55
Greece (36)	374.46	-0.6	335.21	266.50	367.89	743.41	0.0	1.14	376.66	337.29	265.73	368.06	743.41	376.66	211.47	–
Hong Kong, China (67)	314.47	3.7	281.51	223.80	308.98	312.81	3.7	3.91	303.26	271.56	213.95	298.33	301.62	382.55	198.64	336.70
Indonesia (26)	54.13	4.1	48.45	38.52	53.18	263.56	4.9	1.16	52.00	46.57	36.69	50.81	251.22	64.52	19.04	47.87
Ireland (16)	605.85	3.9	542.35	431.18	573.83	573.63	4.5	1.70	582.87	521.95	411.22	548.90	548.90	605.85	385.98	414.35
Italy (53)	191.60	-0.5	171.52	136.36	236.40	236.40	0.0	1.18	192.64	172.51	135.91	236.40	236.40	192.64	122.67	123.23
Japan (445)	98.01	0.2	87.74	69.75	96.29	69.75	1.1	1.07	97.82	87.60	69.01	95.59	69.01	109.73	76.83	91.56
Mexico (29)	1085.12	-0.8	971.38	772.28	1066.10	11593.86	-0.9	2.21	1094.12	979.78	771.90	1069.15	11705.39	1741.16	787.15	1741.16
Netherlands (26)	562.73	1.5	503.75	400.49	482.91	482.91	2.1	1.96	554.37	496.43	391.11	473.17	473.17	562.73	391.03	408.17
New Zealand (18)	62.48	1.3	55.93	44.46	61.36	61.51	1.0	4.74	61.65	55.21	43.49	60.24	60.90	77.84	45.66	75.41
Norway (37)	244.32	1.9	218.71	173.88	240.04	248.64	2.0	2.34	239.65	214.60	169.07	234.18	241.91	357.71	181.86	317.30
Philippines (22)	94.60	1.8	84.68	67.32	92.94	180.09	2.5	0.82	92.92	83.20	65.55	90.80	175.61	106.98	42.48	70.07
Portugal (18)	284.44	3.3	254.62	202.43	333.01	333.01	3.8	0.98	275.41	246.62	194.30	320.71	320.71	299.39	194.13	–
Singapore (41)	221.24	4.4	198.05	157.45	217.36	171.02	4.8	1.66	211.84	189.70	149.45	207.00	163.13	246.74	102.45	201.89
South Africa (38)	201.86	7.1	180.70	143.66	198.32	250.82	5.8	3.79	188.60	168.79	132.98	184.18	237.82	348.20	151.55	257.90
Spain (30)	432.85	-0.5	387.48	308.05	465.51	465.51	0.0	1.72	435.19	389.70	307.03	465.51	465.51	435.19	274.42	280.58
Sweden (44)	538.46	0.7	482.02	383.22	529.02	631.42	0.0	1.81	535.00	479.08	377.44	522.79	631.42	628.19	379.18	477.43
Switzerland (30)	441.65	0.8	395.36	314.32	433.91	377.61	1.6	1.13	438.13	392.34	309.10	428.13	371.50	441.65	307.79	342.54
Thailand (35)	27.58	8.4	24.69	19.63	27.10	38.96	9.3	2.43	25.44	22.78	17.94	24.86	35.64	33.84	8.15	17.83
United Kingdom (207)	392.79	2.1	351.62	279.54	385.90	351.62	3.1	2.60	361.01	341.19	268.81	372.32	341.19	401.84	307.96	336.92
USA (616)	523.93	2.2	469.01	372.87	514.74	523.93	2.2	1.24	512.68	459.08	361.60	500.07	512.68	523.93	378.74	394.59
Americas (794)	465.41	2.2	416.82	331.23	457.25	394.45	2.2	1.27	455.31	407.72	321.22	444.92	385.90	465.41	343.40	358.45
Europe (733)	383.16	1.8	343.00	272.70	376.45	346.57	2.1	1.95	376.51	337.16	265.63	367.92	339.39	386.24	279.29	292.98
Eurobloc (345)	113.82	1.3	101.98	81.07	106.96	–	0.0	1.61	112.45	100.69	79.33	106.01	–	115.92	81.58	–
Nordic (144)	519.14	0.3	464.72	369.47	510.04	516.98	0.2	1.74	517.68	463.57	365.22	505.87	516.04	555.07	360.04	420.43
Pacific Basin (730)	106.75	0.8	95.56	75.97	104.86	79.23	1.4	1.57	105.88	94.81	74.70	103.46	78.12	119.46	82.88	101.34
Euro-Pacific (1463)	221.79	1.5	198.54	157.85	217.90	179.62	1.9	1.85	218.50	195.66	154.15	213.51	176.23	221.79	168.00	181.25
North America (733)	503.01	2.2	450.29	357.98	494.19	503.85	2.2	1.26	492.04	440.61	347.13	480.81	493.09	503.01	387.30	383.00
Europe Ex. UK (526)	364.31	1.2	328.13	259.28	357.93	393.18	1.7	1.55	360.14	322.50	254.08	351.92	327.66	388.32	250.03	282.61
Europe Ex. Eurobloc (388)	101.56	2.3	90.91	72.28	99.78	100.39	2.4	2.32	99.30	88.92	70.05	97.03	98.03	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (181)	104.72	0.7	93.74	74.53	102.88	99.85	1.1	1.95	104.02	93.15	73.38	101.65	98.75	109.21	75.16	–
Pacific Ex. Japan (285)	188.39	3.2	168.64	134.07	185.08	192.23	2.7	3.40	182.57	163.49	128.81	178.41	187.15	218.04	128.28	189.27
World Ex. Eurobloc (1950)	107.89	2.0	108.54	91.30	106.00	105.81	2.1	1.52	105.73	108.40	88.69	103.32	103.80	107.89	83.09	–
World Ex. US (1679)	220.94	1.5	197.78	157.24	217.07	184.47	2.0	1.86	217.44	194.71	153.40	212.47	180.92	221.91	166.95	185.17
World Ex. UK (2088)	311.48	1.8	278.83	221.68	306.02	275.73	2.0	1.39	306.02	274.04	215.90	299.04	270.38	311.48	224.56	244.71
World Ex. Japan (1850)	427.99	2.1	383.13	304.80	420.49	415.21	2.2	1.59	419.18	375.37	295.73	409.61	406.30	427.98	318.78	332.87
The World Index (2295)	318.51	1.9	285.12	226.58	312.93	282.76	2.1	1.54	312.52	279.85	220.48	305.38	276.99	318.51	242.08	282.51

Emerging markets: IFC Investable Indices

Dollar terms

4 pm close January 7

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

122½	68⅞	Xerox	1.44	1.2		1522	121¾	120	121¼	[illegible]
50[illegible]	37½	Xtra Corp			10	917	41[illegible]	41	41	[illegible]
31[illegible]	22½	Yankee Eny	1.28	5.0	22	[illegible]	[illegible]	27[illegible]	27[illegible]	[illegible]
52¼	27½	York Int	0.48	1.2	22	2013	41[illegible]	40[illegible]	40[illegible]	[illegible]
30[illegible]	6[illegible]	Zapata			4	28512	10	11[illegible]	14[illegible]	[illegible]
30½	22½	Zenith Nat	1.00	4.4	10	58	23	23[illegible]	23[illegible]	
6[illegible]	5[illegible]	Zenix Inc	0.78	11.4		279	6[illegible]	6[illegible]	6[illegible]	
14[illegible]	8[illegible]	ZweigFdGj	1.09	9.8		1330	11	10[illegible]	11	
9[illegible]	8[illegible]	Zweig Tot	0.84	9.5		534	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Exsel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 6	Jan 5	Jan 4	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9544.97	9311.19	9184.27	9544.97 (6/1/99)	7539.07 (31/8/98)	9544.97 (6/1/99)	41.22 (8/7/32)
Home Bonds	106.44	106.43	106.46	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3317.46	3192.38	3117.65	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	311.79	309.75	311.91	320.51 (8/10/98)	262.86 (9/1/98)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 9608.05 (9289.46) Low 9331.02 (9137.66) (Theoretical) Day's high 9582.22 (9328.74) Low 9315.42 (9182.98) (Actual)

Standard and Poors	Jan 6	Jan 5	Jan 4	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1272.34	1244.77	1228.10	1272.34 (6/1/99)	927.69 (9/1/98)	1272.34 (6/1/99)	4.40 (1/6/32)
Industrials♥	1530.43	1498.53	1478.60	1530.43 (6/1/99)	1077.40 (9/1/98)	1530.43 (6/1/99)	3.52 (30/6/32)
Financial♥	135.65	131.88	130.57	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	611.01	599.91	594.12	611.01 (6/1/99)	477.20 (8/10/98)	611.01 (6/1/99)	4.64 (25/4/42)
Amex Comp	701.47	692.21	683.61	763.57 (22/4/98)	563.75 (8/10/98)	763.57 (22/4/98)	524.20 (16/7/95)
NASDAQ Cmp	2320.65	2251.27	2208.05	2320.66 (6/1/99)	1419.12 (8/10/98)	2320.66 (6/1/99)	54.87 (3/10/74)
Russell 2000	427.80	422.09	421.26	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Dec 31	Dec 24	Dec 18	Year ago
Dow Jones Ind. Div. Yield	1.66	1.65	1.71	1.72
	Jan 6	Dec 30	Dec 23	Year ago
S & P Ind. Div. yield	1.11	1.17	1.17	1.49
S & P Ind. P/E ratio	39.11	37.82	37.69	25.98

US DATA

MARKET ACTIVITY

● Volume (million)	Jan 6	Jan 5	Jan 4
NYSE	988.930	784.400	892.530
Amex	28.301	24.964	33.900
NASDAQ	1258.190	954.155	940.929

NYSE	Jan 6	Jan 5	Jan 4
Issues Traded	3,547	3,555	3,574
Rises	2,007	1,702	1,716
Falls	1,092	1,354	1,440
Unchanged	448	785	418
New Highs	143	93	137
New Lows	17	23	23

NYSE TRADING ACTIVITY

Volume : 988,930,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Citigrp	13,909,500	54¼	+3¼
MBNA	13,271,000	25¾	+1⅛
Compaq	11,138,700	44⅞	+⅛
AirTch	9,989,900	79⅞	+4⅞
AmOnLine	9,500,400	148¾	+1⅛
AT&T	8,313,300	83¼	+3⅜
Iomega Cp	8,035,000	8¾	+⅜
MicroTech	7,932,000	59⅞	+6¼
BankAm	7,800,200	64⅝	+3¼
Philtorr	7,090,100	53⅛	+⅛

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Gucci	68⅝	+12⅞	+23.0
Mid Atl M	10⅛	+1⅝	+17.8
Safeg'd Sc	33⅜	+4⅛	+14.8
BethSt	10⅜	+1⅜	+14.2
Solutia	28⅞	+3⅛	+12.7
PaineW	42¼	+4⅝	+12.5
Downs			
CKE	27⅝	−2⅜	−7.9
NL Ind	13⅝	−1⅛	−7.6

NASDAQ TRADING ACTIVITY

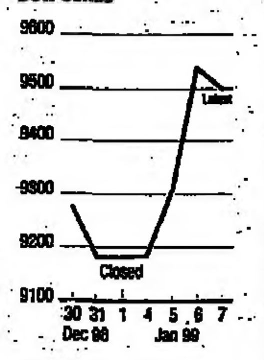
Volume :1,258,190,000

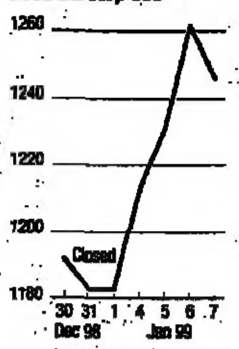
ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Intel	26,813,400	129⅝	+6⅛
AppMat	22,481,500	53⅜	+3⅞
CiscoSys	20,399,800	100⅛	+3¼
Intrmx	20,112,900	12⅛	+1⅛
DellCmp	18,425,300	70⅝	+2⅝
MCIWcm	18,058,300	78⅝	+3¼
Amz.com	18,049,300	137⅞	+13⅞
Micsft	17,257,000	151⅛	+4⅛
NovlAs	14,845,100	58¾	−1⅛
PeopSoft	13,572,200	21⅜	+2⅛

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
MemberG	10⅝	+2¼	+28.7
MMC Networ	17⅜	+3⅞	+27.7
eBay Inc	283	+58	+26.2
Lycos	66	+13⅝	+26.0
CMG Info	151	+30¾	+25.1
Downs			
AspectTel	12⅞	−4⅞	−28.8
Tel-Save	16⅝	−3⅛	−15.0
AncBcWas	21⅛	−2⅞	−12.2





JAPAN

	Jan 7	Jan 6	Jan 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	13538.58	13468.46	13232.74	17264.3	12880	38915.9	85.25

Day's high: 13664.16 Day's low: 13518.41.

TOKYO TRADING ACTIVITY

Volume : 383,240,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
MitsMt	9,375,000	378	+20
Sekisui	8,492,000	257	+12
BTokM	7,998,000	1141	+39
NEC	7,953,000	1064	+43
NKK	6,967,000	71	−3
Hitachi	5,836,000	745	+37
NpStl	5,290,000	207	−2
MtsElec	5,179,000	346	+10
NtsRwy	4,710,000	412	−10
Toshiba	4,611,000	683	+25

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Aomori	8270	+750	+10.0
Nikon	1125	+85	+8.2
Aoyama	3220	+225	+7.9
TkBca	4950	+350	+7.6
MochPh	475	+34	+7.7
Downs			
Nishoiw	87	−6	−6.5
SumRbr	510	−35	−6.4
Hanwa	93	−6	−6.1

FRANCE

	Jan 7	Jan 6	Jan 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4230.67	4294.82	4200.78	4388.48	2662.54	4388.48	984.61

Day's high: 4313.13 Day's low: 4210.64

PARIS TRADING ACTIVITY

Volume : 634,808,080

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Usinor	3,785,142	10.8	+0.4
F.Tele	2,070,496	73.85	−2.55
TotalB	1,468,947	95.2	+4.2
Axa	1,445,679	132.5	−2.1
RhonPA	1,282,776	45.53	−1.45
BNP	1,212,129	81.5	+0.05
Alctel	1,134,248	120.2	−3.1
Paribas	889,480	85.55	−1.4
Vivndi	887,418	246	+5.1
ElfAqu	838,790	106	+3

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Valtrc	32	+2.24	+7.5
GrpGTM	98.9	+6.4	+6.9
TotalB	95.2	+4.2	+4.6
Essilr	375.1	+15.1	+4.2
Downs			
Atos	202.2	−17.3	−7.9
Equant	65.6	−5.1	−7.2
PechnyA	28.42	−2.18	−7.1
SocGen	158	−11	−6.5

GERMANY

	Jan 7	Jan 6	Jan 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5323.21	5443.62	5253.91	6171.43	3896.08	6171.43	931.18

Day's high: 5509.34 Day's low: 5285.68.

FRANKFURT TRADING ACTIVITY

Volume : (n)

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Dt Bk	982,524	56.5	−1.8
DaimCh	978,738	90.7	−1.8
DrsdBk	923,183	40.4	+0.5
Cmmzbk	837,984	28.1	−0.3
Bayer	815,359	37.08	−1.22
Lufthn	784,415	19.95	−0.37
Dt Tel	770,745	33.3	−1
BASF	688,885	33	−1.1
Siemens	620,085	59.7	−0.85
RWE	550,908	50	−0.3

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Douglis	55.5	+3	+5.7
B'sdorf	61	+3	+5.2
Berliz	25.1	+1.1	+4.6
ColNoz	105	+4.5	+4.5
Downs			
Linde	465	−43	−8.5
Hoechst	31.1	−2.1	−6.3
Metro	72.7	−4.35	−5.6
BMWPf	420	−25	−5.6

UK

	Jan 7	Jan 6	Jan 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6101.2	6143.8	5958.2	6179	4648.7	6179	986.9

Day's high: 6153.7. Day's low: 6042.5

LONDON TRADING ACTIVITY

Volume : 1,253,800,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
TeleWest	47,932,710	205	
Belgo	37,142,440	9¼	
BP Amoco	35,950,360	921	+8
Br Steel	30,459,260	112	+7
Centrica	27,883,230	118	+¼
Tesco	26,832,250	169¾	+5½
Hartstone	25,924,300	10¼	
Vodafone	24,113,540	1075½	−13½
Bass	21,754,760	861	+18½
Br Telecom	17,684,340	990	−21½

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Aspen	42	+13	+44.8
Partners	28½	+6½	+32.5
Tamaz	62	+12	+24
Wembley	367½	+55	+17.6
Liberty	155	+22½	+17
Downs			
Limelight	25½	−5½	−17.7
Matthews	36½	−7	−16.1
Highams Sys	63	−12	−16

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1280.80	1280.20	+27.00	1281.40	1265.50	104,895	379,987
Jun	–	1282.30	+26.40	–	–	275	8,090
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	13800.0	13500.0	–	13880.0	13480.0	29,431	187,233
Jun	13670.0	13420.0	+230.0	13880.0	13480.0	1,180	32,888

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	43200.0	3926.5	–	43480.0	42505.0	60,873	934,120
Feb	4276.5	4321.0	+116.0	4334.5	4276.5	4,619	14,654
DAX							
Mar	5475.0	5381.0	−93.0	5510.0	5295.5	53,857	108,949
Jun	5500.0	5406.5	−96.0	5515.0	5335.5	497	5,885

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	759.00	741.00	+5.50	762.00	725.25	26,900	187,458
Feb	762.50	745.00	+6.75	762.00	734.00	2,830	636
EUREX							
Mar	7760.0	7566.0	−155.0	7760.0	7458.0	46,274	128,267
Jun	7666.0	7517.0	−185.0	7666.0	7452.0	168	2,086

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close January 7

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close January 7

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Brazilian moratorium punctures euphoria

WORLD OVERVIEW

A reminder that the problems of emerging markets have not gone away put the brakes on a runaway rally in global stock markets, *writes Philip Coggan.*

News that the Brazilian state of Minas Gerais had declared a moratorium on debt payments to the federal government had caused falls in emerging market bonds late on Wednesday.

Although President Cardoso was re-elected on a commitment to reform last autumn, and the International Monetary Fund has produced a $42bn refinancing package, investors remain concerned about the currency and economy.

The Brazilian stock market fell 20 per cent in December in dollar terms and dropped another 6 per cent in early trading yesterday.

Problems in emerging markets have regularly sandbagged global stock markets over the past 18 months and bond markets indicate that investors are still nervous about some countries' ability to repay.

The renewed worries about Brazil took the shine off what might otherwise have been a good day for global markets.

Wednesday's 230-point rise in the Dow Jones Industrial Average to a new all-time high set a positive tone for Asia, with Jakarta up 7.2 per cent, Hong Kong 4.5 per cent and Singapore 3.6 per cent.

But the euphoria did not carry over to Europe, which has led the way in global stock markets so far in 1999, in part because of the enthusiasm engendered by the launch of the euro.

The Frankfurt index, which gained 8.7 per cent in the first three trading days of the year, slipped 1.8 per cent, while Paris shed 1.5 per cent.

Credit Suisse First Boston thinks there is downside risk of 5-10 per cent for European equities during the first quarter, but adds: "Our 1999 year-end targets reflect an average potential positive return of 7 per cent from current levels [10-15 per cent] for countries we overweight like Finland, France, Italy and Spain.

"We think the highest potential price appreciation will be found among consumer cyclicals: retail, services, leisure, media and building materials," it says.

Wall Street, which had the start of President Bill Clinton's Senate trial to contend with, slipped back from Wednesday's highs in early trading, although the technology-heavy Nasdaq market moved ahead.

Abby Joseph Cohen, the Goldman Sachs strategist who has consistently and accurately forecast the bull market, has shaved the proportion of equities in her model portfolio from 72 to 70 per cent.

Dow drops back from record levels

AMERICAS

US shares turned back in active early trade after Wednesday's record-setting rally as analysts adjusted outlooks for many stocks ahead of the quarterly earnings-reporting season, *writes John Labate in New York.*

The morning sell-off had lost some intensity by early afternoon although the breadth of the market remained negative with declining shares beating winners on the NYSE by a margin of more than 2 to 1. A slight scaleback in the stock allocation recommendation of Goldman Sachs analyst Abby Joseph Cohen, to 70 per cent, helped dampen the mood.

The Dow Jones Industrial Average was down 72.60 to 9,472.37 by early afternoon and the broader Standard & Poor's 500 index had lost 7.34 to 1,265.10.

The Nasdaq composite, weighted in high-tech shares, was on the rebound from morning profit-taking, although it was less than a point higher at 2,321.27.

Merger speculation in the telecoms sector heated up with an unconfirmed report that MCI Worldcom would make a bid for AirTouch Communications, the wireless services provider that is already in talks with Bell Atlantic and Vodafone.

MCI Worldcom slid $3¾ to $74¾ on the report, but AirTouch shares were carried higher, up $2¾ to $82{11/16}.

Borders Group, the US bookseller, tumbled 20 per cent to $19⅞ as Goldman Sachs and J.P. Morgan cut their ratings a day after the company warned about quarterly earnings. Other retail shares were mixed as many reported same-store sales. Lowe's Companies gained $2¼ to $54⅞ after reporting a 10.6 per cent rise in December same-store sales, but J.C. Penney plunged $2⅞ to $43{13/16} after saying its sales were down 5 per cent in December.

Polo Ralph Lauren surged more than 10 per cent to $22⅞ after Morgan Stanley Dean Witter raised its price target to $30 and upped its rating to "strong buy".

In the computer components sector, Adaptec surged 26 per cent to $24{11/16} as Bear Stearns raised its recommendation after the company said it expected to beat third-quarter earnings estimates.

Northrop Grumman slid $1{1/16} to $68{1/16} after Salomon Smith Barney lowered its rating on the stock.

TORONTO was flat at midsession although its gold producers climbed in step with a modest rise in the bullion price. By midday, the TSE-300 composite index was 2.54 lower at 6,802.80 but the gold and precious minerals group was up 2.4 per cent.

Mid-sized producers Kinross Gold and Agnico-Eagle Mines were among the big beneficiaries of renewed confidence in gold. Kinross gained 18 cents to C$3.68 while Agnico Eagle jumped 50 cents to C$6.85.

São Paulo debt crisis sends out shockwaves

SAO PAULO sank more than 5 per cent after a state governor defied President Fernando Henrique Cardoso and his anti-crisis austerity drive by announcing a 90-day debt moratorium.

Itamar Franco, who took over Brazil's third largest state, Minas Gerais, last week, took the investment community by surprise late on Wednesday when he announced he would cease making payments on about $15bn of state debt owed to the federal government.

The Bovespa index sank to a low of 6,841 in early trade. By midsession it was showing a loss of 419 at 6,912.

Developments in Brazil unnerved **BUENOS AIRES** and the Merval index was 10.81 lower by midsession at 433.29.

MEXICO CITY continued its downbeat new year performance. The sharp fall in the Bovespa index revived last year's fears that a crisis could spread from Latin America's largest economy.

By midsession, the IPC index had fallen 57.57 or 1.5 per cent to 3,687.58.

Amsterdam cashes in on euro

EUROPE

Investors sold heavily in **AMSTERDAM** where the AEX index was suspended limit-down briefly after falling 5 per cent below its high for the session. The index ended 22.58 or 3.9 per cent lower at 561.08.

Analysts said shareholders were cashing in on the 8.4 per cent rise in the index since Monday's launch of trading in euros. "It's a little bit of profit-taking," said Roel Gooskens, an analyst for HSBC Securities. "The stocks that made the most gains in the last few days fell the most today."

By contrast, some out-of-favour cyclicals attracted interest. Hoogovens, the steelmaker, climbed €1.10 or 4.1 per cent to €28.10 while Akzo Nobel, the chemicals company, ended €1.35 or 3.8 per cent up at €37.15.

The FTSE Eurotop 300 index fell 14.93 or 1.18 per cent to 1,246.39. See Euro Prices page.

FRANKFURT turned back after its 8.7 per cent rise over the previous three sessions and the Xetra Dax index closed 97.19 or 1.8 per cent off at 5,345.71.

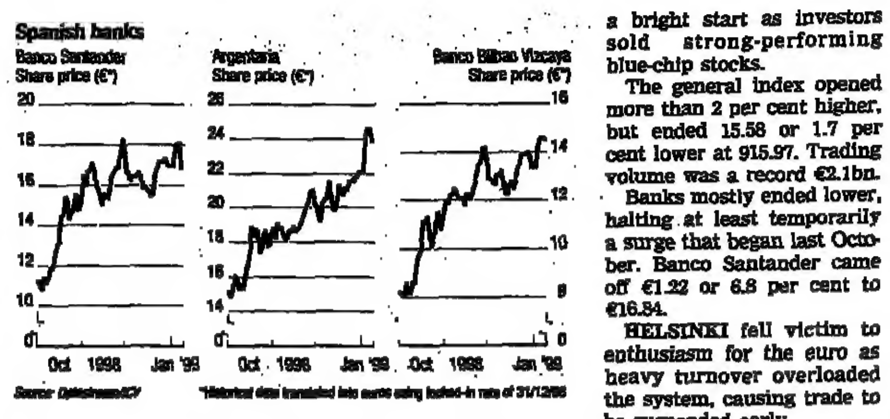
Most large-cap stocks were marked down, and sharp falls were seen among some of the smaller blue chips. Chemical group Henkel lost €5.50 to €75.51, engineering group Linde was €39 lower at €466 and machinery maker MAN gave up €18.90 to €230.

Schering managed a 50 cent advance to €112, kept afloat by last week's bullish outlook for 1999 while other chemicals and pharmaceuticals stocks were lower.

Software giant SAP put on €6.75 to €347.75 in a continuation of the rebound after Tuesday's 15 per cent results-inspired tumble.

Dresdner Bank, the sole winner among financials, edged 48 cents higher to €40 after Tuesday's news that the bank had spun off DM25bn (€12.78bn) of non-bank shareholdings into a separate company.

Spanish banks



Source: Datastream/ICV *Historical data translated into euros using locked-in rate of 31/12/98

Car stocks were weak after their recent speculative advances. BMW lost €18 to €722 while DaimlerChrysler was €1.21 weaker at 91.30.

PARIS ran out of steam as profit-taking was exacerbated by Wall Street's weak opening and the CAC-40 index closed 64.15 or 1.5 per cent lower at 4,230.67.

Steel group Usinor put in a solid performance, continuing this week's recovery on a revival of investor interest. The shares put on 40 cents to €10.80. Analysts noted that both Merrill Lynch and Dresdner Kleinwort Benson had turned positive on the steel sector.

BUDAPEST opened strongly on its first trading day of the year with the Bux index shooting up 465.35 or 7.4 per cent to 6,773.02, writes Kester Eddy. The rise was in line with expectations as the market caught up with its neighbours. The rise was underpinned by the two blue chips, telecom Matav, which powered ahead Ft137 or 11 per cent to Ft1,388, and Mol, the oil and gas group, which advanced Ft380 or 6.4 per cent to Ft6,300.

Car parts maker Valeo rebounded from sharp losses earlier in the week after unveiling 1998 sales roughly in line with expectations. The shares, up almost 7 per cent at one stage, closed 70 cents better at €63.70.

Other motor stocks ran into profit-taking after recent speculative advances. Renault fell €1.79 or 4.3 per cent at €41.20 as the company issued a cautious forecast on the 1999 outlook.

LVMH, active on Wednesday after taking a 5 per cent stake in Gucci, continued to outperform, finishing €5 higher at €205.

ZURICH went along with its neighbours as profit-taking prompted what a number of dealers described as a healthy correction after the somewhat exaggerated recent gains. The SMI index finished 119.1 or 1.6 per cent lower at 7,549.7.

CS Group, which had seen marked gains in previous sessions, slid SFr9.25 to SFr236.75. UBS was SFr10.50 down at SFr459.50.

Swisscom, under heavy selling pressure in recent days, was one of few blue-chip winners, recouping SFr24 to SFr586.

MADRID failed to sustain a bright start as investors sold strong-performing blue-chip stocks.

The general index opened more than 2 per cent higher, but ended 15.58 or 1.7 per cent lower at 915.97. Trading volume was a record €2.1bn.

Banks mostly ended lower, halting at least temporarily a surge that began last October. Banco Santander came off €1.22 or 6.8 per cent to €16.84.

HELSINKI fell victim to enthusiasm for the euro as heavy turnover overloaded the system, causing trade to be suspended early.

Nokia, the telecommunications group, propped up the market with a rise of €4.70 or 4.1 per cent to €118.50. The Hex general index gained 60.25 or 1.0 per cent to close at 5,969.93.

STOCKHOLM advanced on a quiet day dominated by Volvo and Ericsson. Volvo was the second most heavily traded stock after a report that the group was thinking of selling its car division. It finished SKr8.50 or 4.0 per cent higher at SKr220.50.

Ericsson, the busiest stock, continued to rally from the low it plumbed after a profits warning in December. The shares, at SKr174.50 at the close on December 18, rose SKr6 or 2.9 per cent to SKr216.

Written and edited by Michael Morgan, Michael Peel, Paul Gregan and Peter Hall

Jo'burg retreats from highs

SOUTH AFRICA

Johannesburg closed well off the day's highs as worries over the Brazilian debt moratorium sent wary investors locking in profits after the recent healthy gains.

The overall index, 2.7 per cent higher at one stage, closed with a gain on 46.7 at 5,727.4 and industrials put on 46.9 at 6,598.1.

Golds, however, soared 35.2 or 3.9 per cent to 945.9 as bullion tested $289 an ounce and the rand wilted against the dollar.

EMERGING MARKET FOCUS

Lisbon has best of both worlds

Joining the euro has produced a warm glow of pride in the Portuguese, enhanced this week by a rally in Lisbon equities. The BVL 30 index has gained 10 per cent in four days – already half of what many analysts were forecasting for the whole year.

This rise is seen as confirmation of the benefits to be derived from Portugal's unique position as a founder member of European economic and monetary union and an emerging market.

"Portugal will be an integral part of the restructuring of European equity portfolios as investors switch from domestically oriented portfolios to euro-based benchmarks and, over the long term, from bonds to equities," said Geoffrey Dennis, global emerging markets analyst with Deutsche Bank.

These two trends could lead to a $9bn inflow of funds into Lisbon in 1999, about 28 per cent of total market capitalisation by Mr Dennis's estimate.

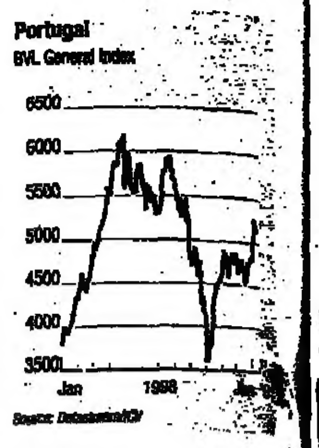
Portugal is evolving from an emerging to a mature market. Some indices, such as Morgan Stanley's MSCI Europe, already recognise Lisbon as a developed market. Others, such as IFC, will not be promoting the country until later this year.

Analysts see this transitional phase as an opportunity to benefit from the best of both worlds.

This is reflected in a average price/earnings ratio of 17 times earnings for the Lisbon market this year, about midway between emerging and mature market valuations, says Scott Schwager, emerging markets analyst with Deutsche Bank. He forecasts 1999 average real earnings growth for BVL 30 companies at 17 per cent.

Membership of Emu has eliminated exchange-rate and serious economic risk for investors in Portuguese stocks. At the same time, Portugal is enjoying stronger

Portugal



Source: Datastream/ICV

economic growth than most of its partners in the euro-zone. The government forecasts gross domestic product growth at 3.5 per cent this year and 3.2 per cent in 2000.

"Economic fundamentals are the main attraction of the Lisbon market," says Mr Schwager.

This is partly because more than 80 per cent of Portugal's foreign trade is with other European Union countries, effectively insulating the country from the worst effects of the economic slowdown threatening other regions.

Emmanuel de Figueiredo, an analyst with Banco Português de Investimento, says the buoyant outlook for GDP makes stocks with high exposure to the domestic economy particularly attractive. This includes utilities such as Electricidade de Portugal, the national power company; Brisa, a toll motorway operator; and food and drink groups such as the brewing company Unicer.

The big supermarket groups, Jerónimo Martins and Sonae Investimentos, are also seen as good investments, particularly the former because of it operations in Poland, another high-growth European economy. Sonae's international focus is on Brazil, an economy facing recession.

Peter Wis[…]

Rate hopes and Dow lift HK

ASIA PACIFIC

Wall Street's overnight record combined with talk of an imminent round of bank base rate cuts to send **HONG KONG** to within 117 points of March's all-time high in robust trading.

The benchmark Hang Seng index finished up 459.77 at 10,693.57 in turnover of HK$10.6bn, the best since late November and more than three times Wednesday's levels.

Interest rate-sensitive shares led the upsurge. HSBC jumped HK$11 to HK$205 while property leader Cheung Kong rose HK$4.25 or 7.4 per cent to HK$61.50. Cathay Pacific hit a 15-month high, advancing HK$1 or 12.2 per cent to HK$9.30.

China stocks were mixed. H shares improved but the red-chip index eased 6.66 to 915.09.

THE DAY'S CHANGES

	% change
Jakarta	+7.2
Hong Kong	+4.5
Seoul	+4.1
Singapore	+3.6
Taipei	+3.3
Manila	+2.7
Wellington	+1.8
Sydney	+1.5
Tokyo	+0.5
Kuala Lumpur	-0.1
Bangkok	-1.2

TOKYO initially surged on Wall Street's record overnight performance, but then surrendered most of the gains on concerns about Brazil and the subsequent weakness of the dollar against the yen, *writes Paul Abrahams.*

The US currency touched a intra-day low of Y110, a decline that hit the stocks of exporting companies.

The benchmark Nikkei 225 index closed 68.10 higher at 13,536.56 after trading between 13,854 and 13,516.

The more representative Nikkei 300 closed up 1.97 at 213.41, while the Topix index of all first-section shares ended up 10.8 or 1 per cent at 1,069. Momentum was up, with 673 shares higher, 469 down and 151 unchanged. Volume remained modest at 388m shares.

Indications that the semiconductor market may have bottomed out boosted chip makers. NEC jumped Y43 to Y1,064, Hitachi gained Y37 to Y745 and Toshiba Y25 to Y683. Chip manufacturers such as Advantest and Tokyo Electron rose more than 7 per cent on the day.

Among the exporters, Sony, the electronics group, fell Y40 to Y7,700 – its sixth consecutive day of declines – while Canon slipped Y35 to Y2,220. However, the strength of Wall Street helped the automotive sector gain 2.7 per cent. Honda rose Y200 to Y3,860. Nissan was the top traded stock, up Y20 at Y376, boosted by the announcement it was selling a non-core subsidiary.

Hong Kong

Source: Datastream/ICV

JAKARTA rose 30.86 to 457.94 on the composite index as foreign investors returned to blue chips. At Rp840bn, turnover was more than four times the recent average. Telkom jumped Rp425 or 13 per cent to Rp3,725 and tobacco leader Gudang Garam rose Rp1,075 to Rp13,275.

SYDNEY set a fresh record. The All Ordinaries index gained 43.9 to 2,897.3 after buying lifted leading stocks. NAB rose A$1.24 to A$26.51. Telecoms saw furious activity. Telstra gained 12 cents to A$7.80 but Cable & Wireless Optus ended 2 cents softer at A$3.70.

SINGAPORE hit a nine-month high in intraday trade, but pulled back at the close after news of a debt moratorium by a Brazilian state.

The Straits Times index turned back from its 1,530.46 peak, but still closed 52.91 higher on the day at 1,517.88. An element of profit-taking was also seen after the market's 9 per cent climb since the start of the year.

SEOUL closed at a 15-month high as foreign investors bought heavily in blue chips. The composite index ended 25.23 up at 637.59.

Overseas investors bought a net Won205.4bn of shares. The main beneficiaries were Samsung Electronics, which climbed Won6,300 or 7.2 per cent to Won94,100, and Korea Telecom, which finished Won2,500 or 5.9 per cent up at Won45,000.

TAIPEI ended higher for the second day as investors took heart from Wall Street's record close on Wednesday.

The weighted index, which fell to a 29-month low on Tuesday, climbed 204.40 to 6,404.31.

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